

Section 4. Real sector of the economy

4.1. The dynamics and pattern of economic growth¹

4.1.1 The dynamics of the Russian economy: domestic and external demand

In 2016–2018, the economic situation was characterized by the gradual recovery of GDP positive dynamics with GDP growth rates increasing from 100.3 percent in 2016 to 101.6 percent and 102.3 percent in 2017 and 2018, respectively. The GDP real volume surpassed by 1.6 percentage point the indicator of 2014, having compensated the crisis decrease seen in 2015.

Unlike the conditions of the previous two years, the nature of development of the economy in 2017-2018 was determined by simultaneous growth in demand on the international and domestic markets. With a relatively favorable foreign economic situation and sustainable positive dynamics, in 2018 exports amounted to 119.4 percent (as per the methods of the system of national accounts (SNA)) as compared to 2014. With the speed-up of the growth rates of the volume of exports to 6.3 percent, in 2018 the contribution of net exports to GDP increased to 3.5 percent against the indicator of 2.8 percent a year before in comparable prices (10.0 percent against 5.3 percent in current prices). Growth in net exports had a considerable effect on the dynamics and pattern of formation of GDP and compensated the weakening of domestic market dynamics (*Fig. 1*).

The gradual recovery of domestic demand was a prerequisite for overcoming the recession. However, the upward trend of formation of the internal market's development resources was unstable. In 2017, a short-lived upsurge in the growth rates of imports to 117.4 percent as compared to the previous year became the factor behind the speed-up of the dynamics of the consumer and investment markets. It is noteworthy that growth in imports gave an additional impetus to growth in output of domestic goods for the internal market. In 2017, the positive dynamics of domestic demand were influenced considerably by changes in the pattern of imports on the back of advanced growth in imports of intermediary and investment-purpose goods. The recovery of the trend of the advanced growth in imports as compared to domestic demand reflected the gradual

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depletion of the potential of the rouble's depreciation and the effect of import substitution. Basically, the economy reproduced the situation which was typical of the 1999–2012 period when insufficient output volumes of domestic goods, both of intermediate and ultimate demand were made up for by import goods supplies.

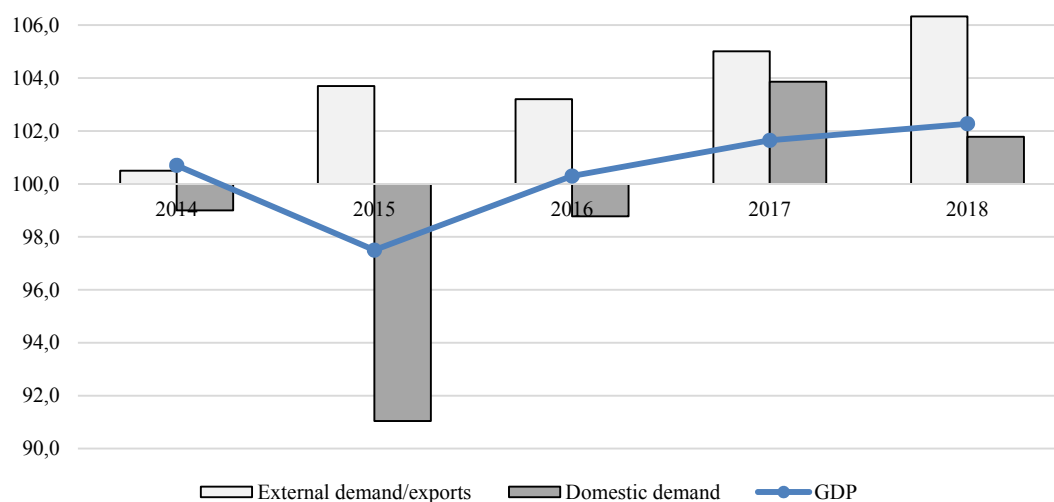


Fig. 1. GDP dynamics by the component of domestic and external demand 2014–2018, % on the previous year

Source: own calculations based on the data of the Rosstat.

In 2017–2018, growth in the share of imports of intermediate consumption goods reflected the insufficient level of the main production output. Growth in investment goods was further restrained by toughening of conditions of borrowing on the international capital market and introduction of sanctions and limitations on deliveries of individual types of technological equipment required for implementation of infrastructure projects and investment plans in mining and manufacturing industries. In 2018, with the existing dynamics and the pattern of the Russian machine-building industry, the reduction of the share of imports of investment-purpose goods had a negative effect on the processes of technological renewal and modernization of the economy (Table 1).

Table 1

**The pattern of imports by the functional nature of utilization
(as per the methods of the balance of payments), %**

	Goods		
	consumer	investment	intermediate
2014	36.1	24.5	39.4
2015	36.4	23.2	40.4
2016	35.6	26.5	37.9
2017	33.6	27.5	38.9
2018	33.2	25.4	41.4

Source: The Rosstat.

The slowdown of the growth rates of imports to 103.8 percent as compared to the previous year and the reduction of their contribution to gross resources led to the slowdown of the domestic market dynamics. With the change in market factors, in 2018 the growth rates of expansion of the domestic market slowed down to 1.8 percent against 3.9 percent a year before (*Fig. 2*).

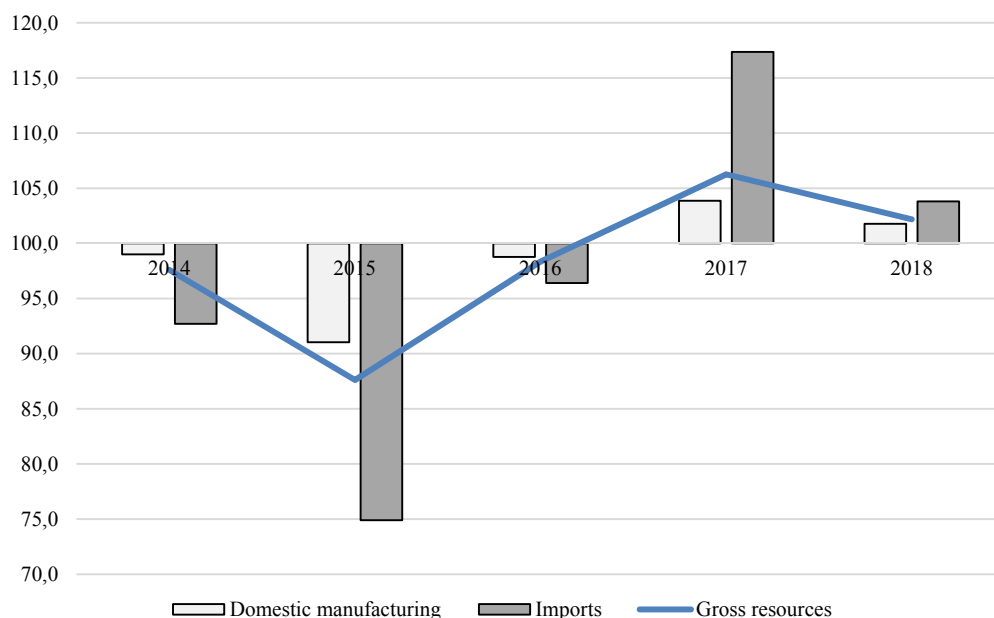


Fig. 2. The dynamics of domestic demand by the component in 2014 – 2018, % on the previous year

Source: own calculations based on the data of the Rosstat.

It is worth mentioning the specifics of formation of resources of the domestic consumer market. In 2018, the indicator of imports was equal to 88.0 percent as compared to 2014 (as per the methods of the SNA); this factor determined the domestic market's structural changes. The reduction of the consumer demand due to falling households' incomes and weakening of the national currency resulted in growth of up to 65 percent in the share of domestic goods in the retail trade, including growth of 77 percent in nonfood market's resources in 2017. In 2018, in the pattern of the retail market's commodity resources the share of domestic goods in commodity resources was equal to 64 percent (*Table 2*).

In 2018, the unit weight of goods and services for the domestic market in the overall volume of domestic manufacturing of goods and services decreased by 1.0 percentage point as compared to the previous year.

Advanced growth in exports promoted the contribution of mining industries to the dynamics of the gross value added and reflected higher mineral dependence of the Russian economy. It is to be noted that in the pattern of exports the share of high-processed goods of ultimate demand was shrinking.

Table 2

The pattern of the retail trade's commodity resources (in actual prices), %

	Commodity resources of retail trade	Including commodities		Share of import food products in commodity resources of retail trade in food products
		Domestic goods	Import goods	
2014	100	58	42	34
2015	100	62	38	28
2016	100	62	38	35
2017	100	65	35	35
2018	100	64	36	36

Source: The Rosstat.

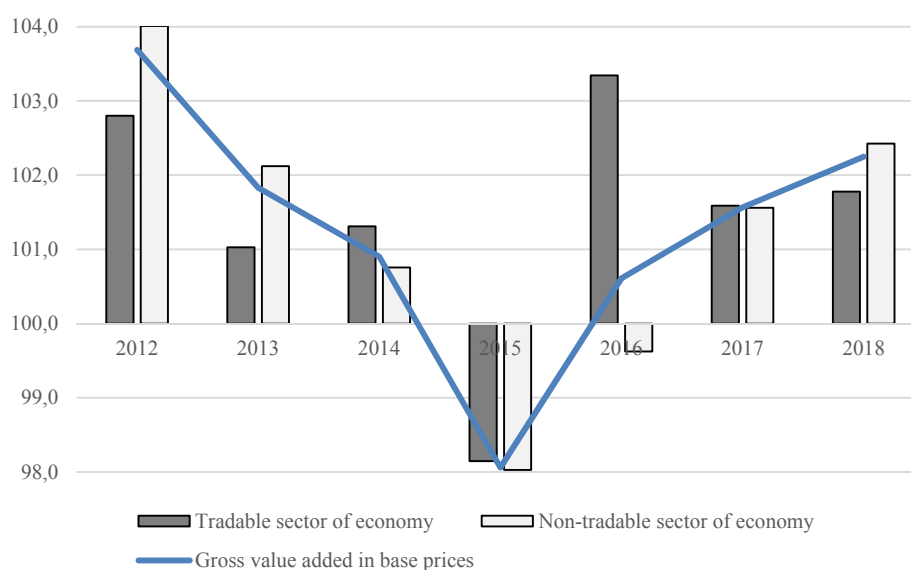


Fig. 3. The dynamics of the gross value added in the tradable and non-tradable sectors of the economy in 2016–2018, % on the previous year

Source: own calculations based of the data of the Rosstat.

In 2017–2018, recovery of the positive dynamics of the Russian economy was determined by the fact that recession was overcome virtually in all the baseline types of economic activities with simultaneous growth both in the tradable and non-tradable sectors of the economy (Fig. 3). However, the effect of the crisis phenomena of 2013–2017 was explicitly seen in the specifics of embarking on the trajectory of growth in 2018 in the manufacturing industries, the building industry, trade and transport. In 2018, economic growth dynamics were determined by an increase in the gross value added in the industry (2.3 percent), trade (2.2 percent), transport and storage (2.9 percent) and financial and insurance business (6.3 percent). In 2018, only the trade with the index of 94.2 percent failed to attain the level of 2014. In addition, in 2018 for the first time in the past five years the contribution of the agriculture to the gross value added decreased (Fig. 4).

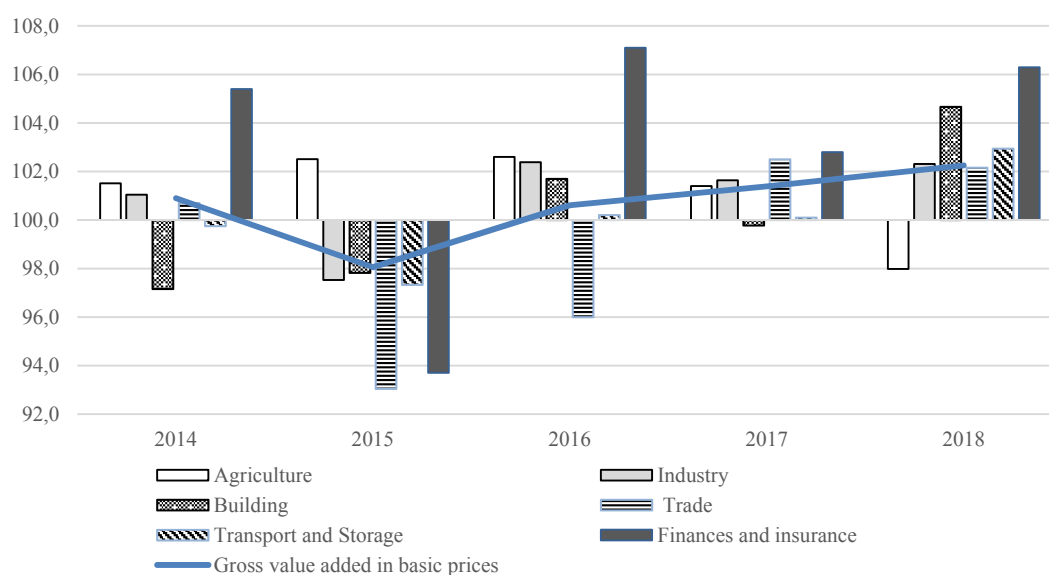


Fig. 4. The dynamics of the baseline types of economic activities in 2016–2018, % on the previous year

Source: The Rosstat.

In 2017–2018, structural changes in the industry were determined by the growing role of the primary sector of the economy and the related infrastructure. In 2018, the production of primary products increased by 4.1 percent, including crude oil (1.7 percent), natural gas (16.5 percent), metal ore (4.6 percent) and services related to production of primary products (13.7 percent) as compared to the previous year (Fig. 5).

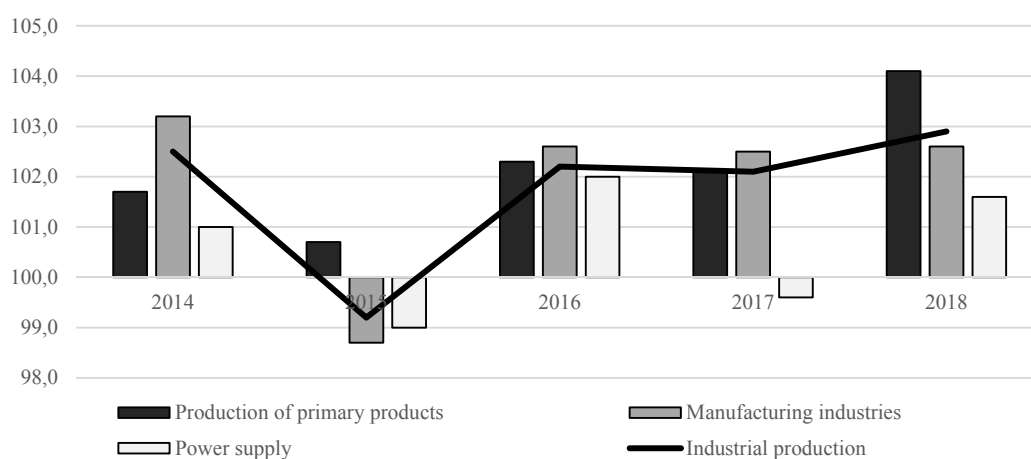


Fig. 5. The dynamics of industrial production by the type of economic activities in 2016–2018, % on the previous year

Source: The Rosstat.

In manufacturing, the indicators of 2018 were characterized by sustainable positive quarterly dynamics with the output growth rates amounting to 2.6 percent.

In 2017–2018, the structural specifics of manufacturing was determined by chemical complex growth on the back of an increase in the output of products, which were competitive both on the international and domestic markets with growth in state and private investments in development of new capacities and modernization of production. With advanced growth in the volume of exports, in the past three years the timber industry saw high dynamics of development. The production of medicines was characterized by exceedingly high growth rates and active import substitution in the period from 2015. Growth in the iron and steel industry was facilitated by the positive situation on global metal markets, as well as growth in demand in related investment and building activities (*Table 3*).

In the past two years, the market of the machine-building industry's products which is traditionally oriented to the receptive internal market saw sustainable growth dynamics. Growth in the machine-building industry was determined by growth in the number of state orders and direct subsidies, as well as recovery of demand on motor vehicles and defense products. In 2017–2018, a line of support of the machine-building industry was growth in the share of export-oriented industries. However, the existing extent of integration of Russian manufacturers into international production chains and sales and service networks abroad limited the competitive positions of Russian-made products on global markets.

On the domestic market, low demand on capital goods with prevailing crisis phenomena in the building and investment complex was still a factor of restraint.

The upward dynamics of the output of consumer products was determined by the expansion of the niches for domestic products on the internal market with the reduction of import deliveries due to depreciation of the rouble's exchange rate.

In 2017–2018, the index of production by the high-tech manufacturing type of activities entered the area of positive values.

Table 3

**The indices of production by the main type of manufacturing
in 2016–2017, % on the previous year**

	2014	2015	2016	2017	2018
1	2	3	4	5	6
Manufacturing	103.2	98.7	102.6	102.5	102.6
Production of food products	104.9	103.1	105.6	104.2	104.9
Production of beverages	94.4	99.2	106.6	99.4	102.6
Production of tobacco articles	91.1	96.8	97.3	74.8	103.8
Production of textile articles	97.0	100.6	107.5	108.5	103.6
Production of leather and leather articles	95.9	91.8	106.7	104.2	96.3
Wood-processing and manufacturing of wood articles	96.4	95.9	108.3	103.9	110.6
Production of paper and paper articles	103.4	101.6	100.4	106.9	112.6
Printing and copying of data carriers	95.1	90.9	86.8	97.2	112.5
Production of charred coal and petrochemicals	106.1	100.9	96.8	101.1	101.8
Production of chemical agents and chemical products	102.3	105.8	110.9	105.1	102.7
Production of medicines and materials	94.6	108.5	127.5	112.7	108.2
Production of rubber and plastic articles	109.7	98.0	105.5	103.8	102.4
Production of other nonmetal mineral products	101.1	93.9	98.1	111.2	104.4

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1	2	3	4	5	6
Metallurgical production	107.2	104.0	99.7	100.1	101.7
Manufacturing of fabricated-metal end products, except for machines and equipment	104.5	103.5	112.7	103.4	101.3
Manufacturing of computers and electronic and optical products	108.9	106.1	108.5	98.3	98.5
Manufacturing of electrical equipment	97.9	90.5	108.1	104.7	102.9
Manufacturing of machines and equipment which are not included in other groups	92.1	95.3	101.5	106.8	99.4
Manufacturing of motor transport vehicles, trailers and semitrailers	88.7	76.9	105.8	114.5	113.3
Manufacturing of other transport vehicles and equipment	116.2	105.4	108.1	106.3	97.8
Furniture making	99.8	92.8	70.9	108.8	105.5
Manufacturing of other end products	105.1	90.1	77.7	110.3	111.2
Repair and assembly of machines and equipment	94.4	94.3	98.8	92.1	98.0

Source: The Rosstat.

4.1.2. Utilization of GDP: consumer and investment demand

The specifics of 2017–2018 were the recovery of growth in ultimate consumption after two decades of its shrinkage. In 2018, with GDP growth of 2.3 percent households' ultimate consumption and investments in capital assets increased by 2.2 percent and 4.3 percent respectively as compared to the previous year (*Fig. 6*). However, in 2018 the indices of the situation on the consumer and investment markets turned out to be lower than in 2014.

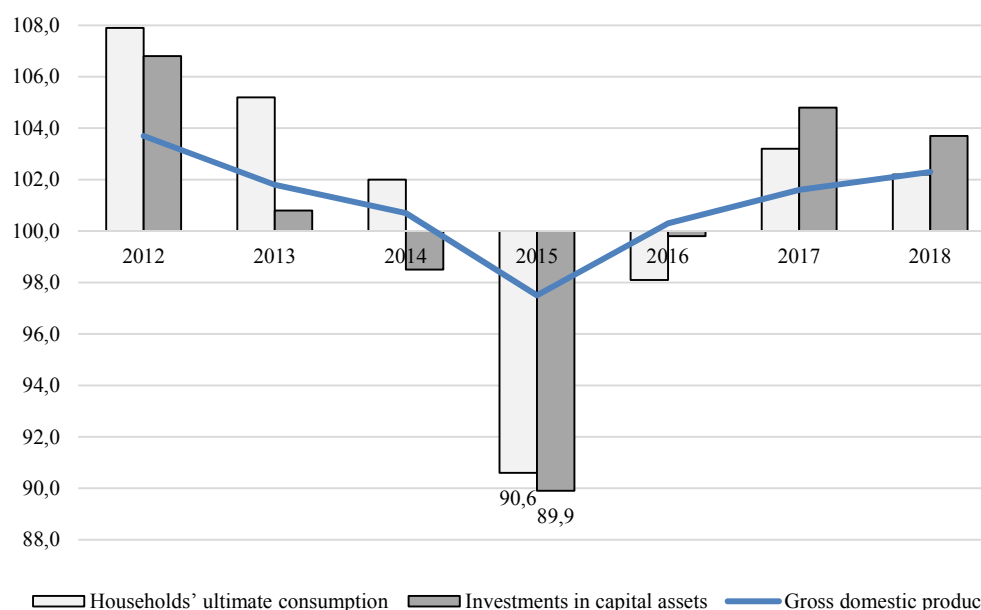


Fig. 6. The dynamics of GDP by the component of households' ultimate consumption and investments in capital assets in 2014–2018, % on the previous year

Source: The Rosstat.

It is worth mentioning that the restraint dynamics of households' cash incomes had a considerable effect on the consumer market. After the 2015 crisis, the formation of the pattern of households' cash incomes was influenced by advanced growth in labor remuneration as compared to social payments and other sources of income. The dominating factor of the model of formation of households' incomes was the expansion of the gap in the dynamics of the real size of pensions and wages. If in 2015 the average size of the accrued pensions amounted to 35.2 percent of the average amount of the accrued wages, in 2018 it fell to 30.8 percent.

In 2015, a dramatic drop in real wages and salaries hit households hard, though the effect of that processes was somewhat smoothed over by households' financial assets saved in 2010–2014. With the rates of inflation slowing down in the period from 2017, there is an explicit trend of stabilization of households' real disposable cash incomes which in 2018 were equal to 99.8 percent (with a lump-sum payment to pensioners taken into account), including 97.6 percent and 106.8 percent of the real size of granted pensions and real accrued wages and salaries, respectively, compared with the indicator of the previous year. Despite the weak dynamics of incomes in 2018, real wages exceeded by the mere 0.8 percent the indicator of 2014 with the real size of the granted pensions being reduced by 6.0 percent (*Fig. 7*).

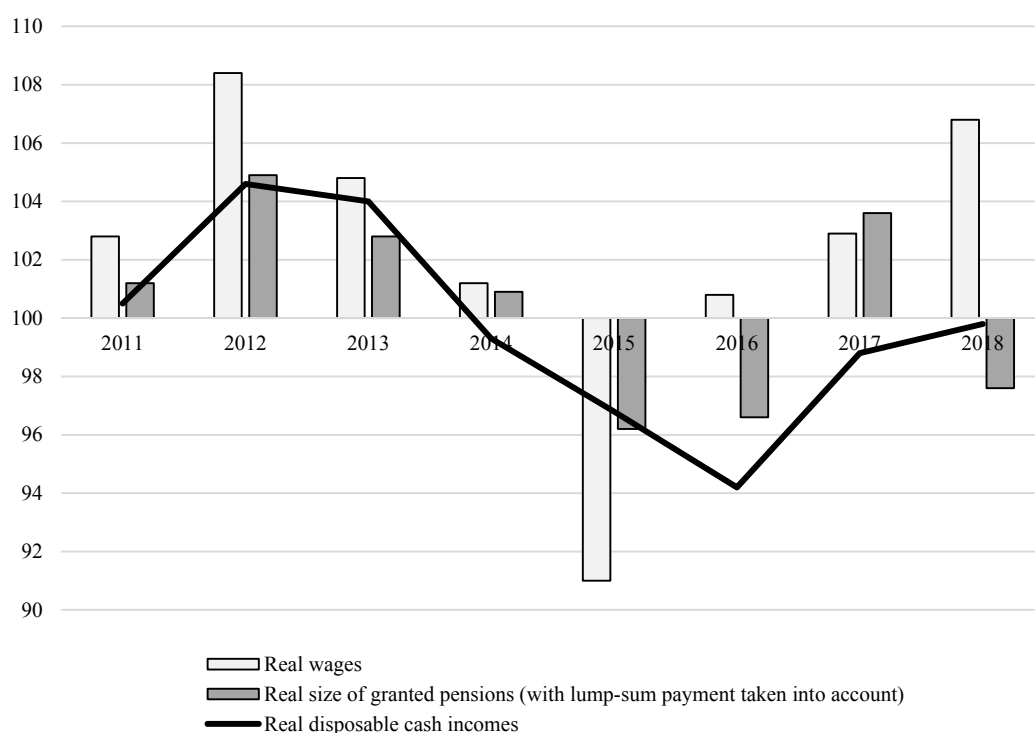


Fig. 7. The dynamics of real monthly average wages and the real size of granted pensions in 2011–2018, % on the previous year

Source: The Rosstat.

In 2018, households' disposable cash incomes in real terms amounted to RUB 57,520.9 billion; households spent RUB 56.625.2 billion on purchasing of goods and services, growth in households' savings was equal to RUB 6,371.0 billion, a 13.9 percent decrease as compared with the previous year.

With the speed-up of growth rates of nominal monthly average wages, in 2018 the share of wages in households' cash incomes rose to 66.2 percent, a 0.8 percentage point increase as compared with the relevant indicator of 2015 when the minimum growth in wages and salaries was registered during twenty years of observations. The share of social payments in households' incomes increased to 19.4 percent, with the average size of the granted pensions amounting to 30.8 percent relative to the average size of the accrued wages with the indicator of 35.2 percent in 2015. Weak dynamics of households' business and investment activities were behind the reduction of their contribution to households' cash incomes to 12.4 percent against 14.2 percent in 2014 (*Table 4*).

Table 4

The pattern of households' cash incomes in 2014–2018, % against the total

	2014	2015	2016	2017	2018
Total cash incomes	100	100	100	100	100
Wages, including shadow ones	65.8	65.6	64.6	65.4	66.2
Social payments	18.0	18.3	19.1	19.6	19.4
Revenues from entrepreneurial activities	8.4	7.9	7.8	7.6	7.5
Property related incomes	5.8	6.2	6.5	5.4	4.9
Other incomes	2.0	2.0	2.0	2.0	2.0

Source: The Rosstat.

The dynamics and the pattern of households' cash incomes were characterized by the growing social and economic differentiation and inequality in distribution of households' incomes and wages. High inequality in distribution of incomes and wages was a factor of restraint of economic growth rates. In 2018, the income concentration factor was equal to 0.410 and the R/P10% ratio of 15.3-fold. With the existing level of wages and salaries, in 2018 the number of the employed at entities with the labor remuneration below the minimum subsistence level amounted to over 2 million people (3.1 percent of the employed in the economy or 5.2 percent of workers of entities). The share of workers with a low level of wages and salaries amid the growing demographic burden on the working population had a considerable effect on the level of poverty. In 2018 (January-September), the number of the population with incomes below the minimum subsistence level amounted to 19.6 million persons (13.3 percent of the total number of the population), which factor undoubtedly affected households' consumer activities.

The existing high inequality stimulates demand on qualitative changes in the population's social security infrastructure. Minimum wages, labor benefits and social security payments were the instruments of the policy of effective support of workers in the low segment of the scale of distribution of wages, reduction of the scope of poverty and inequality, establishment of inclusive labor markets, formation of stable consumer demand and, eventually, facilitation of more sustainable economic growth.

In 2017–2018, households’ consumer activities were formed amid slowdown of the rates of inflation and reduction of interest rates. As the population got adapted to those conditions of the consumer market and increased pressure of deferred demand, quarterly dynamics pointed to the consumer market’s gradual recovery. A change of trend as regards households’ incomes with the growing share of expenditures on purchasing of goods was accompanied by growth in demand on consumer loans. In 2018, consumer behavior was determined by upward trends of consumer prices to 104.3 percent, including prices of food products to 4.7 percent (+3.5 percentage point as compared to 2017) and non-food products to 104.1 percent (+1.3 percentage point) (*Fig. 8*).

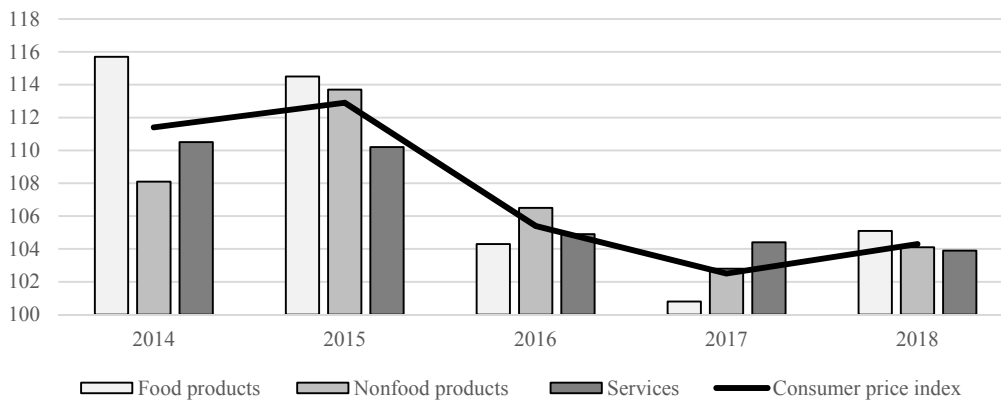


Fig. 8. The dynamics of consumer prices by the market segment in 2015-2018, on December of the previous year

Source: The Rosstat.

In 2018, there was growth in the volume of the food market (1.7 percent), nonfood market (3.4 percent), paid services to households (2.5 percent) and public catering (3.7 percent) as compared to the previous year’s indicators (*Fig. 9*).

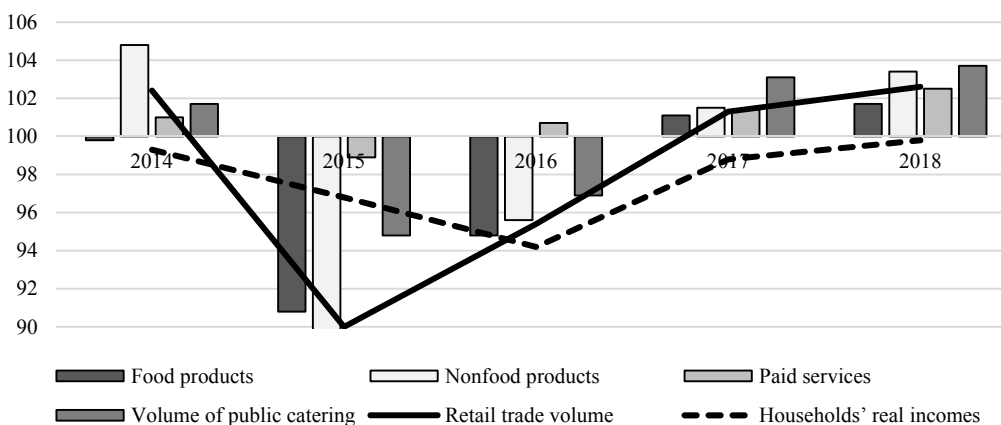


Fig. 9. The dynamics of the food market in 2015–2018, % on the previous year

Source: The Rosstat.

In H2 2017, households' saving behavior was influenced by reduction of interest rates on mortgage loans amid growing market supply of housing of a broad price range. This factor determined a somewhat increase in the share of expenditures on purchasing of the real estate and created the prerequisites for further promotion of this trend in 2018. It is to be noted that growth in households' debt load was accompanied by reduction of the share of savings and slowdown of growth in households' bank deposits, which situation under certain circumstances may create problems related to fulfillment by households of their debt obligations to banks (*Fig. 10*).

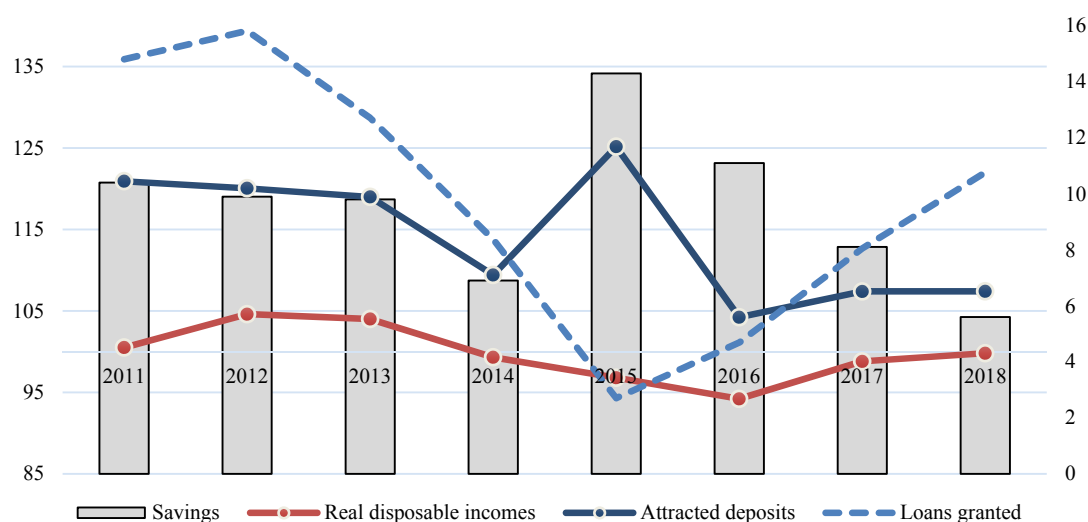


Fig. 10. The share of savings in households' incomes (%) and dynamics of deposits and loans to households in 2011–2018, % on the previous year

Source: The Rosstat.

4.1.3. Changes in the pattern of formation of GDP by the source of revenues

In 2014–2018, price changes determined the dynamics of financial results of economic activities and profitability ratios. In 2018, industries' profitability increased by 4.8 percentage point as compared to the relevant period of 2017 (*Table 5*).

Table 5

Profitability of sold goods, products, jobs and services by the type of economic activities in 2017–2018, %

	2017	2018
1	2	3
Total in economy	7,5	12,3
Agriculture, hunting and forestry	17,3	20,2
Production of minerals	25,9	33,6
Manufacturing	11,5	12,8

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1	2	3
Power-, gas- and steam-supply and air conditioning	8,3	8,8
Building	7,2	6,1
Wholesale and retail trade	4,6	7,3
Hotels and restaurants	7,0	7,1
Transportation and storage	9,7	8,8
Information and communications	7,0	14,6
Financial and insurance activities	0,4	11,2
Real-estate operations, leasing and rendering of services	15,5	15,9
Public administration and military security; social security	1,6	2,4
Education	5,0	4,2
Healthcare and provision of social services	10,4	10,4

Source: The Rosstat.

In 2017–2018, the level of profitability of production and the dynamics of the balanced financial result were largely determined by manufacturers' pricing policy. In 2018, manufacturers' response to the trend of revival of internal demand was the speed-up of growth rates of prices both in the industry and building. Advanced growth in prices in the mining industry and primary product refining industries led to adjustment of prices in manufacturing (*Table 6*).

Table 6

Price indices and schedules in 2014–2018, December on December

	2014	2015	2016	2017	2018
Consumer price index	111.4	112.9	105.4	102.5	104.3
Manufacturer price index, including:	105.9	110.7	107.4	108.4	111.7
mining	98.4	109.8	108.5	123.9	120.7
manufacturing	108.5	111.2	107.6	104.2	110.3
Agricultural producer price index	114.1	108.5	101.8	92.2	112.9
Overall index of building material prices	107.2	110.3	103.2	103.1	107.3
Index of cargo transportation tariffs	100.9	111.5	105.6	109.0	100.9

Source: The Rosstat.

In 2017–2018, the redistribution of revenues in favor of enterprises sped up. In 2018, the share of labor remuneration in GDP fell to 45.7 percent against 47.1 percent a year before (*Table 7*).

Table 7

The pattern of formation of GDP by the source of revenues in 2014–2017, % against the total, in current prices

	2014	2015	2016	2017	2018
Gross domestic product	100	100	100	100	100
Including:					
Labor remuneration of hired workers, including shadow wages and mixed incomes	47.2	46.5	47.3	47.1	45.7
Net taxes on manufacturing and imports	13.9	11.2	11.0	10.8	11.4
Gross profit in economy and gross mixed income	38.9	42.3	41.7	42.1	42.9

Source: The Rosstat.

A change in the share of labor remuneration in GDP is normally acyclic: it increases in the period of recession and decreases during the recovery as a result of changes in the paid employment and the level of wages and salaries or under the simultaneous effect of them both. In 2016–2017, a short-term trend of growth in the share of wages and

salaries was behind weak dynamics of reduction of demand on the workforce relative to a decrease in output amid the acute phase of the crisis and restrained growth in demand on workforce as compared to the dynamics of output in the period of the economic upturn. It is to be noted that the indicators of price adjustment of the cost of the workforce made it possible to regulate the quantitative parameters of modification of the rates of employment and unemployment, as well as the ratio of wages by the type of economic activities.

The well-paid types of economic activities – mining, production of petrochemicals, pipeline and air transportation and financial activities – have retained the leading positions, but the excess of nominal wages over the nationwide average indicator decreased somewhat in 2018. The lowest wages (64 percent of the nationwide average indicator) were still in the agrarian sector.

The shrinkage of internal consumer and investment demand slowed down growth in wages in building and trade with a simultaneous reduction of employment in these types of business activities.

The differentiation in the level of labor remuneration by the type of economic activities was particularly explicit as regards the form of ownership. In the economy as a whole, the nongovernment sector saw a higher level of labor remuneration as compared to state-owned entities. In 2011–2018, the narrowing of the gap in the size of accrued average wages in entities of different forms of ownership illustrates high rationality of the labor remuneration policy in the nongovernment sector by means of regulation of the number of the employed. Owing to a higher level of labor remuneration, state-owned entities were oriented at preserving employment conditions, generally, in problem regions, single-industry cities, as well as at large enterprises which were of priority to the national economy, which situation could not, but restrain restructuring processes on the labor market.

A substantial diversification of wages was registered by the level of education and the type of activities. The situation where workers with a higher education degree were paid much higher wages as compared to those with a lower level of education is typical virtually of all the types of economic activities. By the type of economic activities, type of occupation and the level of education, average wages in the industry, financial sector and R&D surpassed by large average indicators across the economy. In such socially important types of activities as education and healthcare, average wages were still below the average nationwide indicators.

The extent and nature of changes in average accrued wages are influenced by the age and gender composition of the employment. Low wages as a transition stage are of less concern to young people under the age of 30 years old in the context of motivation to promotion of their status as regards education, skills and social and financial standing. In 2013–2018, the higher level of average wages by the type of occupation was observed with active age groups (25–49 year old) with the record of service of 5–20 years. With higher age and longer record of service, the dynamics of changes in average accrued wages slowed down in the economy as a whole.

Gender parameters were the factor, which had a considerable effect on the value and dynamics of the labor remuneration fund and the level of average accrued wages. The general trend of reduction of the level of employment of women in the economy was accompanied by a gradual shrinkage of the gap in labor remuneration on the basis of gender and the type of economic activities. In 2018, women accounted for 53.8 percent in the total number of workers (-0.7 percent as compared to 2013), while the ratio of women's wages to those of men was equal to 72.6 percent (+2.6 percent on 2013).

In the Russian economy, changes in macroeconomic conditions affects mainly the indicators of the dynamics of nominal and real wages, rather than the level of employment (in 2018 the rate of unemployment amounted to 4.8 percent). The reaction of the labor market to the changes in the economic situation remains rather weak because the adaptation takes place not through the layoffs of the workforce, but by means of utilization of adaptation mechanism of working hour adjustment, administrative measures and practices of informal labor relations. The indicators of the pricing adjustment of the cost of the workforces permitted to regulate the quantitative parameters of changes in the rates of employment and unemployment, as well as the level and ratio of wages by the type of economic activities. Generally, advanced growth in wages as compared to labor efficiency underpinned domestic demand, but had an unfavorable effect on the dynamics of investment activities and overweighed the positive effect of households' domestic consumption. Amid the slowdown of economic growth rates, there was a specific modification of factors of production in the economy, the gap between growth in wages and labor efficiency became larger and inequality in distribution of wages and incomes increased.

The level and dynamics of wages and the changes in the share of the workforce in GDP have both social and economic consequences. Sustainable growth in wages plays an important role in the overall demand maximization, weak growth limits households' consumption and domestic demand, while high differentiation and inequality in distribution of incomes and wages are interpreted as a factor of restraint of economic growth rates and social well-being. In the social dialogue, it is crucially important to formulate the mechanisms of modification of wages with taking into account changes in labor utilization efficiency and inflationary developments, as well as determination of minimum wages.

Wages-related costs permit to estimate employers' expenditures on utilization of workers' labor, while wages reflect the level and dynamics of workers' purchasing power and serve as indirect indicators of living standards.

The index of the average size of wages is an important component of the information on the labor market because wages are the dominating form of the gainfully employed population's income.

The correlation between nominal, median and minimum wages and the minimum subsistence level demonstrated gradual narrowing of the gap between them and since May 2018 the minimum size of wages has been set at the level of the minimum subsistence level of the working population, which situation is in harmony with global

trends of regulation of the labor remuneration. In 2017, in the Russian economy the ratio of the minimum wages to the median and average wages amounted to 27.5 percent and 20 percent, respectively. These indicators are still rather low, while in most countries the ratio of the minimum wages to median wages and average wages are in the range of 45–60% and 40–55%, respectively (*Table 8*).

Table 8

Average accrued wages, minimum wages, and the minimum subsistence level

	Rub.				%	
	Average nominal wage	Median wage	Minimum monthly wage	Minimum subsistence level	Correlation between minimum monthly wage and indicator of	
					Average wage	Minimum subsistence level
2010	20 952		4 330	6 138	20.7	70.5
2011	23 369	1 604	4 611	6 877	19.7	67.0
2012	26 629		4 611	7 048	17.3	65.4
2013	28 792	21 266	5 205	7 586	18.1	68.6
2014	32 495		5 554	8 683	17.1	64.0
2015	34 030	24 846	5 965	10 455	17.5	57.1
2016	36 709		6 204	10 598	16.9	58.5
2017	39 085	28 343	7 800	10 701	20.0	72.9
2018	43445		11 663	11 663	26.8	100.0

Source: The Rosstat.

In 2009–2014, the average annual growth rates of real wages amounted to 104.5 percent with growth registered across all the aggregate types of economic activities. On the back of a surge of the inflation rate in 2014–2015, real wages fell by 9 percent in 2015; this decrease in wages was compensated by the recovery of the growth trend in 2017–2018. In 2018, real wages rose by 6.8 percent as compared to the relevant period of the previous year.

In 2014–2018, with slowdown of economic dynamics in the Russian economy the advanced growth in real wages pointed to a lack of automatic short-term correlation between wages and labor efficiency. It is to be noted that in 2014–2017 the narrowing of the rates of changes in real wages and the dynamics of labor efficiency was a positive trend (*Table 9*).

Table 9

Labor market indicators in 2010–2017, % on the previous year

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Gross domestic product	104.5	104.3	103.7	101.8	100.7	97.5	99.8	101.5	102.3
Overall labor costs	101.3	100.5	100.4	99.5	99.8	99.0	99.8	100	n/a
Labor efficiency index	103.2	103.8	103.0	102.2	100.7	98.1	99.8	101.5	n/a
Real accrued wages of entities' workers	105.2	102.8	108.4	104.8	101.2	91.0	100.8	102.9	106.8
Average annual number of the employed	100.1	100.2	100.5	99.9	99.9	99.5	99.5	99.7	100.3

Source: The Rosstat.

As seen from the dynamics of labor efficiency in 2014–2018, with the pattern of economic growth being modified labor efficiency was growing at a higher rate in the tradable sector of the economy. Undoubtedly, the positive contribution to the overall economic dynamics was made by the agriculture. Growth in labor efficiency in the agrarian sector facilitated the redistribution of labor resources to the services sector and

determined the modification both of structural parameters of the employment and social parameters with the correlation between nominal wages of workers in the agrarian sector and wages of workers with relevant skill standards in the industry, building, trade and other services taken into account.

The industry saw mixed dynamics. With changes in the level of prices, growth in the cost of borrowings and shortage of investment resources, a decrease in labor efficiency in mining was compensated by additional attraction of the workforce; this factor permitted to underpin positive output dynamics and promote the role of this activity in formation of the gross value added. The manufacturing compensated the reduction of the average annual number of the employed by means of restructuring of production and increasing workers' labor efficiency with growth in the average earned rate; as a result it managed to reduce labor inputs.

With shrinkage of the domestic market of investment goods and services and consumer demand in 2014–2017, labor efficiency in the building industry and retail trade decreased. Despite the more dramatic slowdown of the growth rates of nominal wages in the above sectors as compared to the nationwide level, preservation of jobs became the factor of restraint of social risks on the labor market with the a high share of those types of activities in the economic pattern taken into account (*Table 10*).

Table 10

**Dynamics of labor efficiency by the type of economic activities,
% as compared to the previous year**

	2014	2015	2016	2017
Total	100.7	97.8	99.8	101.5
Agriculture, hunting and forestry	103.3	104.5	103.5	103.8
Mining	102.8	98.3	100.3	100.4
Manufacturing	102.5	97.1	99.3	99.7
Power-, gas- and water-supply	100.2	99.8	100.5	102.2
Building	98.4	100.8	99.9	98.9
Wholesale and retail trade	98.7	93.4	94.4	101.5
Hotels and restaurants	99.8	96.2	94.3	101.7
Transportation and storage	100.4	97.8	99.0	102.2
Real-estate operations	98.6	100.2	100.2	99,6

Source: The Rosstat.

The analysis of the long-term trends of development of the Russian economy reveals weak sensitivity of the labor market to the changes in the dynamics of macroeconomic indicators. The reaction of the labor market to the crisis situation remained rather weak because adaptation took place not by means of the lay-offs of the workforce, but through the adaptation mechanisms of regulation of working hours, administrative measures and the practice of informal labor relations.

In 2018, the number of workforce amounted to 76.2 million people, including 72.5 million people gainfully employed in the economy and 3.7 million people (4.8 percent) classified as unemployed (as per the methods of the ILO). Despite the slowdown of the rates of economic dynamics in 2015–2018, the rate of unemployment fell to the historic low values. As seen from the comparative analysis of the main indicators of the labor market, with the general downward trend of the share of the able-

bodied population in the total number of the population the dynamics of the number of the workforce and the gainfully employed persons in the economy demonstrated weak growth in 2015–2018, which situation was probably related to the involvement of potential resources of the workforce from among the economically inactive population amid falling living standards (*Fig. 11*).

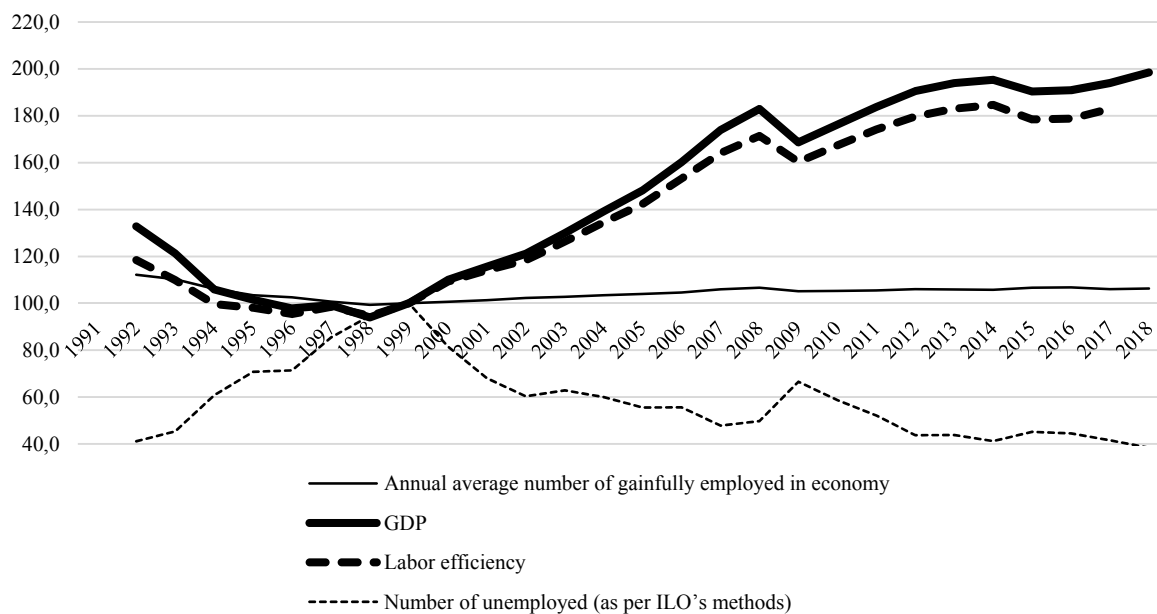


Fig. 11. The dynamics of the number of the gainfully employed in the economy, the unemployed and GDP, % on 1999

Source: The Rosstat.

In the current situation, the weak reaction of the labor market, including its component, such as the unemployment to complicated economic conditions can be explained by the policy of retention of skilled workers amid real depreciation of the workforce and expectations for revival of economic activities in future. In addition, the shortage of labor supply justified by demographic factors and the outflow of migrants whose earnings decreased dramatically due to the depreciation of the rouble had a restraining effect on growth of the rate of unemployment. Employers' need in workers declared by the state employment service remains higher than last year; as of the end of 2018 the tension coefficient per 100 declared vacant jobs amounted to 46.2 persons against 64.3 persons a year before. With high indicators of the turnover of the workforce (hiring and layoffs), the turnover of jobs (liquidation of old jobs and creation of new ones) – as a parameter of their renewal – is still rather low. It is to be noted that the level of the turnover is underpinned mostly by the liquidation of jobs at the existing enterprises, rather than creation of jobs at new ones.

In 2017–2018, nearly 11.2 percent of the number of workers was partially employed. In January–September 2018, the average number of working hours per one worker decreased by 0.5 percent as compared to the relevant index of the previous year with quite a broad range of fluctuations of this indicator across the types of economic activities. In mining, in 2018 the share of part-time workers was equal to 8.3 percent of the average payroll strength, while in manufacturing, to 20.9 percent. The investment crisis in the building industry caused the reduction both of the number of the employed and growth of 18 percent in the number of part-time workers. In the services sector, part-time employment was not quite acute because of restructuring of jobs and support of the budget-funded sector. A high level of part-time employment has an effect of the dynamics of parameters of the rate of unemployment, but at the same time is evidence of the prevailing inefficiency of employment.

In the past 25 years, structural changes in the economy have led to a substantial modification of demand on workforce. With growth in the share of the nontradable sector, the new formats of provision of state, financial, commercial and transport services were accompanied by advanced growth in the workforce engaged in those types of activities. In 2001–2017, the average annual number of the employed in the nontradable sector of the economy increased by nearly one-third and amounted to over three-fourth of the total number of gainfully employed in the economy. Highly restrained changes in healthcare and education were an alarming factor in terms of long-term goals and improvement of households' living standards.

Restructuring of employment was accompanied by the modification of demand on the workforce on the basis of its skills. In the pattern of the gainfully employed population, the share of workers with higher and secondary vocational education increased. In the period of ten years from 2006 to 2017, the share of persons with higher education in the total number of the employed in the economy increased by 6.4 percentage point, having grown at advanced rates as compared to other categories of the employed. The highest level of the employed with higher education and high skills is typical of such types of activities as education, science, finances, state administration and healthcare. These activities see growth in demand on human resources which have received special retraining or advanced training. This factor is going to play an important role in promotion of labor efficiency through more comprehensive utilization of professional skills and competences. Also, it is worth mentioning that the above listed types of activities are characterized by changes in gender parameters of the employment owing to growth in the share of persons of active and creative age (25–49 years old), as well as women with a higher level of education as compared to men.

Amid the complicated economic situation of 2015–2018, the government took a number of important decisions related to regulation and reduction of the labor market's tensions, including: raising of the size of minimum wages and the maximum size of employment benefits; equalization of the rights of the unemployed; formation within the frameworks of the state employment service of the nationwide bank of vacant jobs; changing of the level of labor remuneration in the public sector. A trend of

toughening of state control over compliance with the norms of the labor legislation, in particular, the ones aimed at restructuring of the employment, preservation and efficient utilization of workers' professional skills, introduction of nonstandard working regimes, promotion of workers' social security and upgrading of working conditions received an additional impetus.

4.2. Russian industrial sector in 2018: slowdown of exiting from stagnation of 2012–2016 (based on surveys findings)¹

This Chapter has been prepared on the results of business surveys of industrial enterprises, which have been conducted by the Gaidar Institute using a European harmonized method in monthly cycles since September 1992, covering the entire territory of the Russian Federation. The panel size is around 1,000 enterprises employing over 13 percent of industrial employees. The panel is shifted towards large enterprises for each of the segregated sub-industries. The ratio of returned questionnaires is in the range of 70–75 percent.

Business survey questionnaire contains a limited number of questions (not more than 15–20). The questions are of a qualitative and not quantitative nature. Simple questions structure allows the respondents to fill out the questionnaire quickly and without using any documents. It is paramount that respondent at each enterprise is a manager of the highest level who has a full understanding of state of business and is directly linked to the business management.

We use specific derived index, which we call balance, for the analysis of business surveys results. Balances are calculated as difference between the percent of those who answered “go up” (or “above normal”) and percent of those who answered “go down” (or “below normal”). The obtained difference allows us to present responses to each question by one number with “+” or “-”.

Balance is interpreted as first derivative or process speed. When the balance of responses to a question of expected price shift is marked “+” this means that the average prices in the near future will be growing (for example, prevail those enterprises with responses about projected increase of their prices). For instance, increase of a monthly balance from +10 percent to +17 percent speaks about the fact that prices on average across industry will be growing faster because the number of enterprises projecting their growth have increased. Negative balance means a decline of average prices (more enterprises intend to cut their prices). Change of balance from -5percent to -12 percent is interpreted as an increase of price fall intensity.

* * *

The year 2018 became a hard one for the Russian industrial sector. On the one hand, dynamics of indicators including a wide range of measured indicators did not

¹ This section was written by S. Tsukhlo, a researcher at the Gaidar Institute for Economic Policy.

demonstrate crisis-style features. On the other hand, slowdown of positive trends registered in the Russian industrial sector seen in 2017 disaffected enterprises. Exiting from 2012-2016 stagnation slowed down in 2018.

4.2.1. General assessment of 2018

Prolonged period of industrial business surveys conducted by the Gaidar Institute and representative range of indicators permit to resolve the first task – analyze the situation in the sector in 2018 – determine the place for the year 2018 in all the 27 years since the IET launched and carried out business surveys between 1992–2018. For this purpose, we will use aggregate indicators. The latter are usually calculated on a monthly basis on the findings obtained from monthly surveys. They became widely popular owing to promptness of the findings and shortage of data released on the Russian industrial sector. However, this approach to present surveys' findings complicates assessment of each year as a whole. That is why we analyze all consolidated indicators in a year-on-year basis.

The IEP Industrial Confidence Index¹ is the most general characteristic computed by all organizations on the basis of surveys and provides the first insight into the state of business in the sector.

The Index in 2018 remained unchanged since 2017 (*Fig. 12*). Thus, the Russian industrial sector in 2018 managed to recover from the 2012–2016 stagnation. Note that the Index gives no reasons for separating the 2015–2016 period as a stand-alone crisis period. In the Russian industrial sector, the two past years saw just the continuation of stagnation (or according to terminology adopted in 2011-2014 – “the second wave of the crisis”). However, the discussion of a possibility of “the second wave” allowed the industrial enterprises astonishingly easy to face somewhat deterioration of the situation in the sector – and what is more important – pro-crisis-like verbal intervention of early 2015. Business surveys' findings provide enough ground for calling 2015-2016 “the second wave of the crisis” or (taking into consideration weaknesses of crisis-style events) – the stagnation period. In 2017, industry launched exit from stagnation but failed to continue exiting in 2018.

¹ The Index is computed as a simple arithmetic average (difference in responses) to four questions from the IEP's monthly business survey questionnaire:

- 1) Actual change of demand, balance = percent growth – percent decline;
- 2) Estimate of demand, difference of assessments = percent above normal + percent normal – percent below normal;
- 3) Estimate of finished goods inventory, balance = percent above normal – percent below normal, opposite sign;
- 4) Plans for output change, balance = percent growth – percent decline.

Balances of questions 1 and 4 are seasonally and calendar adjusted. The Index can range from –100 to +100 points. Positive index values imply the prevalence of positive assessments. Negative index values mean that adverse assessments prevail. Decline of index's values is the sign of deteriorating situation. Growth of index's values – the sign of ameliorating situation.

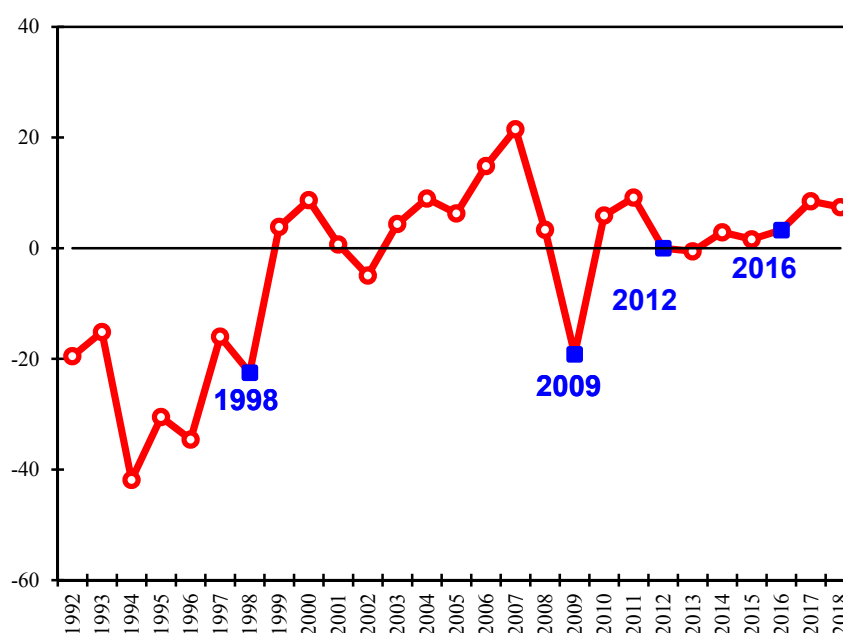


Fig. 12. IEP Industrial Confidence Index, 1992–2018, percentage points

Stabilization of the Industrial Confidence Index in 2018 was provoked by a reduction of two basic indicators out of four used in its computation, nominal growth - third and invariance – fourth.

The worsened dynamics of industrial goods demand was the key factor in 2018. According to average annual data, the balance of actual changes in sales was down 6 points and again was negative, i.e. responses about demand decline during last year were more than responses about its growth. In 2017 this indicator stood at zero and was top since 2011.

In this context, industrial enterprises opted for minimizing their excessive finished goods inventory. The balance of average annual inventory assessments was down from +7 to 0 points. Note that a small positive balance of assessments in 2017 suggested that enterprises were confident that sales could boost and fundamentally differ from the crisis surplus of finished goods inventory, which surveys registered in 1992-1996 and in 2009. Year 2015 did not see crisis surplus of finished goods inventory in industrial sector. Even on the contrary. Balance of responses regarding inventory of finished goods in crisis 2015 was below the balance of responses seen in 2014 by 3 points. In January 2015 the industrial sector registered shortage of inventory, which was very surprising for the first month of the crisis. Nominal reduction of the balance of responses seen in 2018 positively affected the change in the Industrial Confidence Index because this balance is used with a reversed sign in measuring the Index. However, such positive effect there is a fall of the Russian industrial confidence regarding the new future prospects.

Industrial enterprises' production plans in 2018 were less optimistic. The average annual balance of their expectations was down 2 points after an increase of 5 points in 2017. Note that in the first official crisis year 201, the industrial sector exhibited a

reduction of industrial optimism by less than 1 point and this indicator mainly suffered in 2016 – second year of the official crisis – coming to 5 points.

Such more negative than positive dynamics of three main indicators (demand, inventory, expectations) nevertheless did not affect the balance of major assessments of demand volumes seen in 2018, which remained at the previous year’s level when the demand indicator demonstrated fundamental growth (+25 points) after standing in 2012–2016 in the range of +2...+11 points. In crisis 2015 the balance of assessments declined by a mere 1 point. Major decline of this indicator (satisfaction with demand) following the crisis of 2008–2009 was registered by surveys in 2012 and constituted 15 points.

However, the notable slowdown seen in 2018 in recovery from stagnation after the success in 2017 affected industrial enterprises’ assessments of the situation that prevailed. The Industry Adaptability (Normality) Index for the Russian industrial sector posted for the first time since 2013 a decline in the average annual data (*Fig. 13*). This Index – is the second consolidated indicator measured according to the findings obtained in the course of business surveys conducted since 2015. Then, assessment of the situation by the Russian industrial sector – far from the non-crisis-like – made to turn attention to a business survey questionnaire asking industrial enterprises to measure their key performance figures using a grading scale: a “higher than normal”, “normal”, “lower than normal” performance. The average share of answers like “normal” shows the extent to which industrial enterprises consider their situation as acceptable, that is, the extent to which they are adapted to present economic conditions. The Industry Adaptability (Normality) Index is measured by industrial enterprises’ assessments of demand, finished goods inventory, raw and other materials, number of workers, provision of capacities and financial and economic situation.

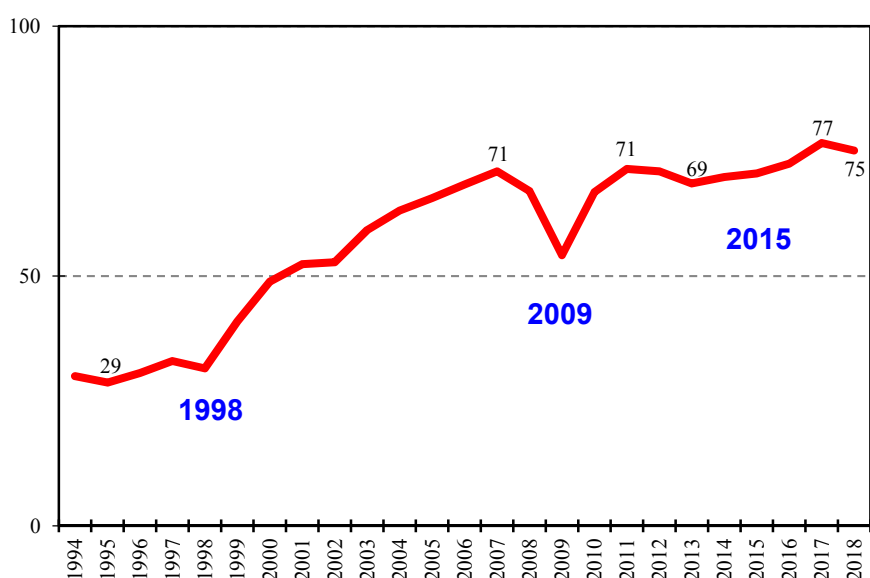


Fig. 13. Industry Adaptability (‘Normality’) Index, 1994–2018, percent

The Industry Adaptability Index for 2015–2016 revealed no crisis-related developments at that period in the Russian industrial sector, at least according to industrial enterprises. Furthermore, enterprises assessed the situation in the industry more positively in the 2015 crisis year than they did in 2014. The Index gained 1 point, hitting an all-time high that was previously recorded only in 2007 and in 2011. Another 1 point was added next year which set yet another all-time record. The first year of recovery from the official crisis of 2015–2016 (or recovery from the 2012–2016 stagnation) contributed to a substantial rise in the Industry Normality Index since 2011. The index already hit the absolute highest of 77 percent in the period of its computation during 1994–2018.

Five out of six initial components used for computing the Adaptability Index exhibited an increase in 2017. Solely estimates of finished goods inventory showed a reduction of “normal” responses by 3 balance points in the wake of the balance growth (“above normal” – “below normal”) to +7 points. However, this combination is more positive than a negative change of inventory and their estimates by industrial enterprises because speaks about the confidence of enterprises’ managers in growing demand on the output. Major contribution in reaching a record level of the Normality Index in 2017 were estimates of available industrial capacities in the industrial sector – the level of normal provision with industrial capacities moved up by around 9 points and hit an all-time high or the entire period of monitoring of this indicator in 1993-2018. This growth occurred both due to the reduction of responses “more than sufficient” and to the decreased responses “insufficient.” However, even this year the industrial sector has failed to get rid of the overhang of surplus capacities – responses “more than sufficient” were as before more than responses “insufficient,” i.e. their balance as positive. Negative balance (shortage of capacities) was registered by surveys only in 2007–2008 (the latest survey with this question was conducted in October 2008, in other words, before the collapse seen in November 2008). However, in 2009 the industrial sector got rid of the shortage of capacities and stays so up to date.

All-time high assessments of normality for the entire period of monitoring were registered in 2017 with three indicators – provision with industrial personnel, stocks of industrial inputs, and financial and economic situation of enterprises. Demand assessments hit solely a local maximum, the record of 2007 was not beaten.

However, the slowdown in positive processes in 2018 pushed down the Industry Adaptability (Normality) Index by means of a negative adjustment of 4 initial indicators, retention of assessment of the fifth one and under the nominal growth of assessments of the sixth indicator.

However, “normal” assessments of finished goods inventory at 2018 year-end hit the absolute highest in all the 27 years since the IEP launched the business survey. Zero balance of other inventory of finished goods estimates is a reflection of the fact that the industrial sector lost hopes for demand revival and on the whole got rid of even the minimal surplus of inventory of finished goods, which it usually maintains in the wake of confidence in the demand growth. Thus, the nominal growth of the share of normal

responses of finished goods inventory is most likely an adverse signal than a positive one in 2018.

Estimates of stock of industrial inputs in 2018 retained the record high level of normality (80 percent) attained by the Russian industrial sector even in 2016 and retaining token growth for the third year. This success is due to the sluggish economic dynamics of the recent years and historically better provision of enterprises with working capital.

However, “normal” provision of capacities in the Russian industrial sector dropped in 2018 by 5 points over the retention of a positive balance, i.e. overhang of excessive capacities. A similar situation was observed for enterprises’ assessments of their manpower but under a zero balance (“over” – “less”) on the whole in industry.

Enterprises’ assessments of their financial and economic situation in 2018 lost 2 points, although this indicator had the lead in the Russian industrial sector in terms of the degree of enterprises’ satisfaction, that is, most of the surveyed enterprises were overall satisfied with their financial and economic situation (“good” or “satisfactory”) (88 percent in 2018, 90 percent in 2017). The Russian industrial sector was always less satisfied with other indicators since 2003. Industry was constantly worst of all satisfied with the demand for its products (except 2007). In 2012–2016 sales volumes were considered normal by 50–52 percent of industrial enterprises – without whatever release of the indicator in 2015–2016. In 2017, satisfaction with sales moved up to 61 percent, and in 2018 nominally decreased to 60 percent (*Fig. 14*).

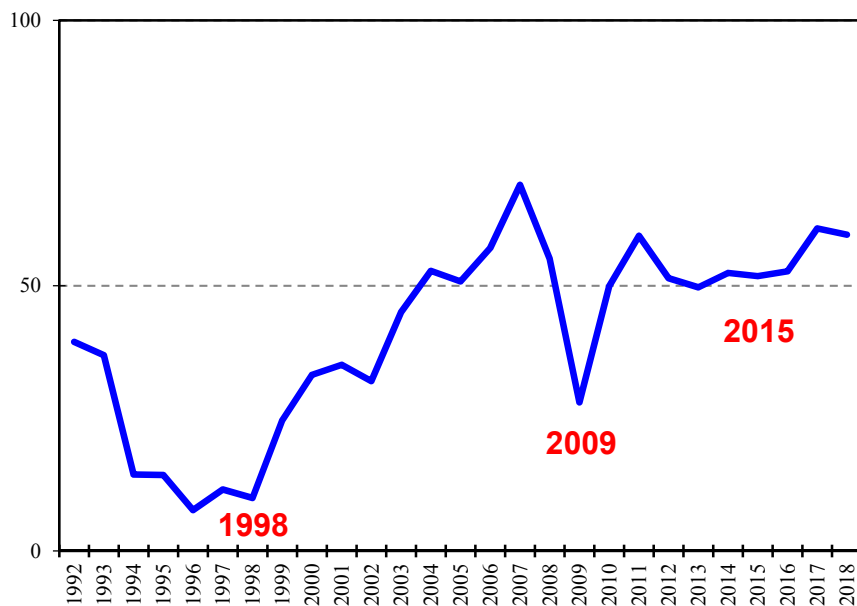


Fig. 14. “Normal” self-assessment of product demand in 1992–2018, percent

In 2018, the slowdown in recovery from the 2012–2016 stagnation affected also other projections (plans) of Russian industrial enterprises. The Industrial Prediction Index¹ lost 3 points for industry’s optimistic expectations after hitting in 2017 a local high, 5 points up (see *Fig. 15*). The Industrial Prediction Index was stable in the period between 2012 and 2016, varying between +3.6 and +5.3 points, which is another evidence that the Russian industrial sector slipped into stagnation after the recovery from the 2008–2009 crisis: there was a gradual loss of optimism in 2011 followed by transition to a stagnation in 2012.

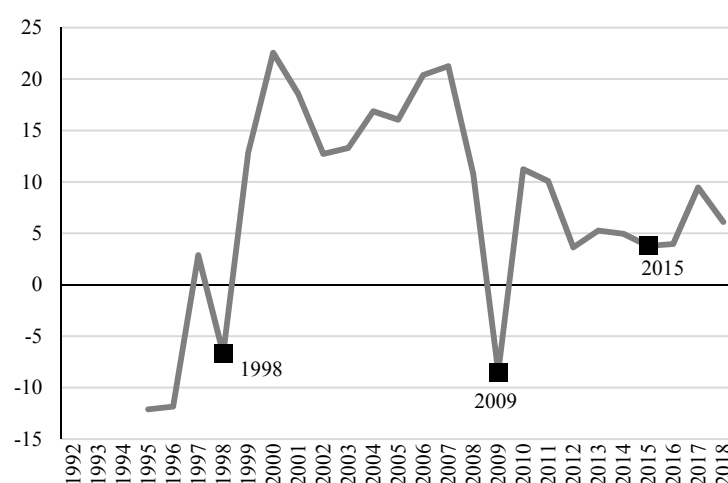


Fig. 15. Industrial Prediction Index 1995-2018, percentage points

The decline in optimism in 2018 was observed through all enterprises’ projections that were used for measuring the composite Industrial Prediction Index. Sales predictions saw most of the decline, sliding 5 points down in 2018. In 2017, the balance of predictions climbed 4 points but dropped again in 2018. Adverse balance of these projections after the crisis of 2008–2009 was registered in 2015 and constituted merely -2 points, which resulted from the pro-crisis-style declarations made by officials and experts. Output projections declined in the first crisis year by less than 1 point, i.e. the industrial sector was not prone to adjust its production program. Only in 2016 – following the change in the official rhetoric – industrial enterprises could provide adequate assessment of the current situation and downgrade their projections by another 5 points to a local minimum (+11 points). However, this decline was opposite to the crisis-style collapse of 2009 when the indicator (according to the annual average data) fell to +1 point after registering +35 points in 2017.

Occupational employment projects in 2015 were far from the crisis-like but more likely to the contrary. Balance of these projections in the first crisis year was less

¹ The Industrial Prediction Index is measured as the arithmetical mean of the balances of three questions included in a survey questionnaire: demand change forecasts, output changes plans, and expected occupational employment changes. The Index can vary from -100 to +100 points.

pessimistic, i.e. industrial sector was less prone to dismiss staff in the crisis 2015 than in the previous non-crisis 2014. This can be explained by the fact that industry at the beginning of the 2015–2016 crisis, which practically did not affect it got the chance to resolve its personnel problems – to do away with the shortage of qualified personnel – in the first place, workers. Industry continued conducting the same personnel policy in 2016 when balance of its occupational employment projections change went up but remained in the red. Industrial enterprises still planned to reduce the number of employees but at a slower pace (with balance -1 point) and minimal for 2012–2016. The Russian industrial sector produced the most pessimistic projects of occupational employment change after the 2008–2009 crisis in 2013 at -5.6 points. In the 2009 crisis year for industry this indicator plummeted from +4 to -19 points.

4.2.2. Uncertainty assessment of 2018

Enterprises' projections collected in the course of business surveys are used for the evaluation of the current economic situation and the years to come. Monthly surveys cover a large number of industrial enterprises and in case of coincident of the majority of enterprises' projections one can draw conclusion that the industry has a similar (and specific one) perception of the current situation and the prospects of its near-term development. When responses of the surveyed enterprises divide equally between three types of projects "increase", "remain unchanged", and decrease" one can speak about a total uncertainty in the economic situation – industry lacks unanimity (specificity). Totally opposite development scenarios seem equally possible for enterprises.

Direct assessment of the uncertainty during the long enough history of the IEP business surveys conducted in 1992-2018 exhibits that the popular thesis of the growing uncertainty in 2018 lacks ground. The Russian industry demonstrated a reduction of uncertainty during 2018. Moreover, in 2018 the level of uncertainty fell to an all-time low according to enterprises' projections regarding the change of three main indicators: demand, output, and occupational employment (*Fig. 16*).

Projections of the changes in occupational employment practically always had the highest degree of uncertainty. They peaked twice in the 21st century: during the 2008-2009 classical crisis years and during non-crisis style 2014. Notably, the latest upsurge of uncertainty was already stemming in 2013, and registered a downward trend in the officially crisis-style 2015. In 2016, the uncertainty of occupational employment projections plummeted to rock-bottom low for that moment.

During 1995–2018, the demand forecasting nearly always was marked by greater uncertainty than occupational employment projections. Uncertainty of these expectations hit an all-time high in the classical crisis year of 2008. It must be said that close (but lower) indices of uncertainty was obtained in 1995–1996 when the Russian industry was in deep and protracted crisis. In the officially recognized crisis year of 2015 uncertainty of demand forecasts remained at the level of the previous non-crisis 2014, which in addition turned out to be an all-time maximum. In the next crisis year of 2015 the uncertainty of these expectations exhibited next minimum, which halted in 2016 and

in 2018 continued its downward trend by breaking the record. In other words, so high degree of uncertainty of demand forecasts as in posted in 2018 was not observed in the Russian industrial sector.

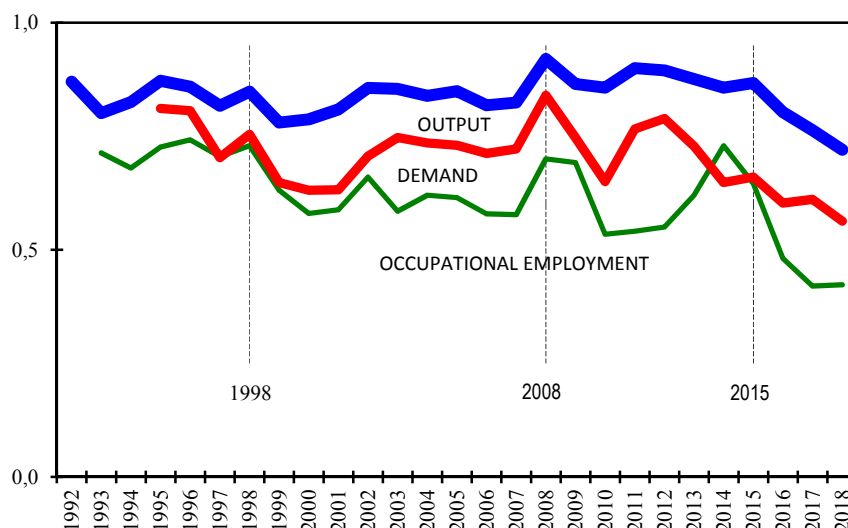


Fig. 16. Annual average assessments of the level of uncertainty of demand, output, and occupational employment forecasts, 1992–2018

Output plans tend have the highest degree of uncertainty (and correspondingly the lowest degree of certainty) of analyzed in the business surveys indicators. However, uncertainty of these expectations has approximately the same historic dynamics as the uncertainty of demand and occupational employment forecasts. Outcome of 2008 turned out to be an all-time high for the entire period of 1992–2018, i.e. both during the deep and protracted crisis of the 90s, and during the officially accepted crisis year of 2015 the Russian industrial sector boasted of more definite output plans than during the shock year of 2008. Years 2016–2018 saw industrial enterprises posting stable and most notable reduction of uncertainty – never during the previous years the industrial sector managed to demonstrate such degree of their output plans consistency, which resulted in hitting an all-time minimum of output plans uncertainty in 2018.

In the analysis of the uncertainty assessment one should bear in mind that uncertainty growth indicates solely the fact that one category of projections is predominant in the responses of enterprises without indicating the economic content of such uncertainty. In other words, technically high degree of certainty can hide predominance of any forecast scenario: growth, stagnation, and decrease. That is why the assessment of uncertainty especially in cases of clear decrease, i.e. in case of certainty increase, should be specified – forecasts of what category of change are predominant in the Russian industry.

This specification of a positive decrease of uncertainty in our case significantly reduces confidence of the first conclusions. Increase of certainty of enterprises projections seen in 2018 was due to concentration of the latter in the category “will not

change.” The share of stagnation projections in 2018 hit an all-time high for all analyzed indicators (*Fig. 17*).

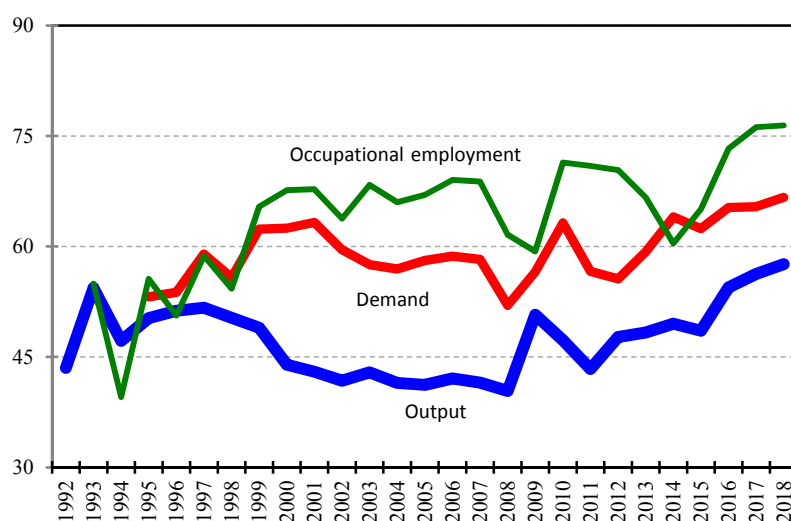


Fig. 17. Russian industry propensity for stagnation (share of stagnation projections), 1992–2018, percent of enterprises

The minimal uncertainty of occupational employment projections was defined by the share of projections “will not change” hitting 76 percent, which was registered by business surveys in 2017 and 2018. This value was an all-time high of this category of projections for all 26 years of its monitoring. Two remaining responses of a potential change in employment were divided by industrial enterprises in approximately equal parts and ensured nearly zero balance projections change.

Expectations of demand retention in 2018 were registered by 67 percent of industrial enterprises 2 points above the results registered in 2016–2017. Increase of stagnation demand forecasts in the Russian industrial sector commenced in 2012, and in 2014 the indicator hit 64 percent exceeding by 1 point the peak of 2010. The crisis year of 2015 practically did not change the share of such demand forecasts, meanwhile in 2008 these forecasts decreased by 6 points, which logically became sales reduction forecasts.

Propensity of the Russian industry to the demand stagnation exhibited significant growth at the year-end 2016 when this indicator hit 54 percent and repeated the 1993 record. In the previous stagnant years of 2012–2015, the share of projections in favor of retaining output consistently stood in the range of 48–50 percent. After 2016, stagnation projections collected merely 4 points but that was sufficient to obtain in 2018 an all-time high for the entire period of over business surveys expectations of output invariance, which stood at 58 percent.

Thus, in the enterprises’ projections of their principal indicators dominate expectations of their invariance (i.e. stagnation or stability depending on the point of view). Although the balance (the share of responses “will grow” minus the share of responses “will decrease”) of other development scenarios in 2018 remained positive. Propensity (readiness) of the Russian industrial sector to growth remained low and what

is the worst turned out to be less than in the previous 2017 across all indicators: demand, output, and occupational employment (*Fig. 18*).

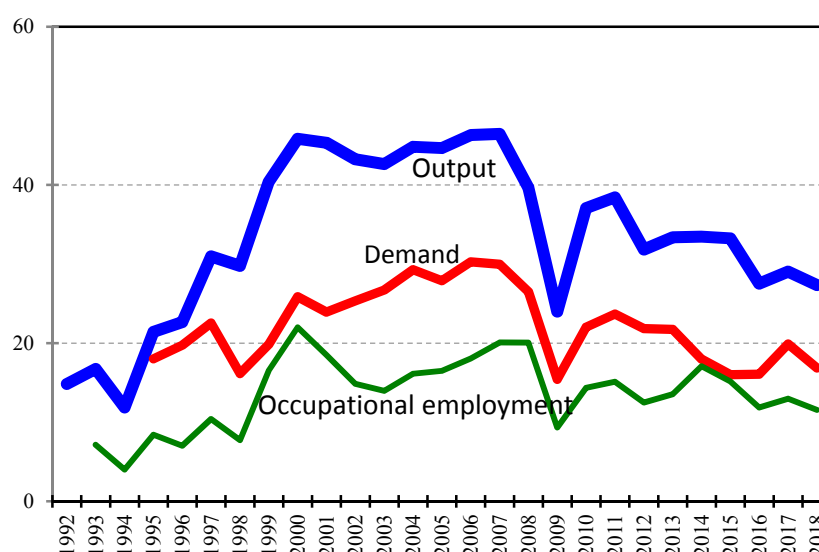


Fig. 18. Propensity of the Russian industry for growth (share of growth projections), 1992–2018, percent of enterprises

The output growth forecasts in 2018 went back to the level seen in 2016 – the second year of the official crisis. This level in addition is the worst seen since termination of the crisis of 2008–2009. Then expectations for the output growth exhibited decrease already according to the business surveys’ results of 2008, although that year solely the last quarter was considered a crisis one. The Russian industrial sector defined major plunge of the hopes for the output growth in 2009 when the share of the output growth projections decreased to 24 percent. Inferior level of projections for the production output growth was registered solely in 1992–1996. In the crisis year 2015 the Russian industrial sector retained propensity for production output at the level seen during the three previous non-crisis years. However, these years fundamentally exhibited less confidence in the production output plans than in 2010–2011 when industry was exiting from the 2008–2009 recession and was expecting a return to pre-crisis years of explosive growth and demand, and output. Stagnation decreased propensity for the industrial output growth first to the average level at 33 percent (in 2012–2015) and then – to 28 percent (in 2016–2018).

Dynamics of expectations for the demand growth after the 2008–2009 crisis has a different but also less optimistic picture. In 2010–2011, expectations for the sales growth launched a recovery growth but failed to achieve the pre-crisis years’ level and even did not hit the level of partially crisis-like year of 2008. Coming stagnation reduced expectation for the sales growth first to 22 percent (2012–2013) and then to 18 percent (2014), and to 16 percent (2015–2016). Attempted exit from the 2012–2016 stagnation in 2017 increased the share of projections for the sales growth to 20 percent, but the negative left by 2018 has decreased the hopes for the demand growth to 17 percent,

which were nearly the worst values for the entire period of monitoring of this indicator in 1995–2018.

4.2.3. Dynamics of main industrial indicators in 2018

In early 2018, main features of the lingering stagnation inherent from 2015–2016 crisis persisted. The January optimism seemed unstable for enterprises and did not result in projections' optimism. At the quarter-end, dynamics of major indicators demonstrated validity of pessimism and forced industry to come to terms with the continuation of stagnation.

In January 2018, the IEP business surveys of Russian industrial enterprises reported a rather high for recent years' demand growth for industrial goods. For the second month in a row, the balance of change remained at a level of +2 points. However, in February growth was slowing down and in March halted. By the way, demand forecasts for Q1 2018 exhibited low level of responses with preservation of positive processes seen in late 2017. Industrial sector learned from the 2015 statements that a rebound from the crisis bottom was to take place soon and failed attempt to rebound from the official crisis, as a result, exhibited reasonable cautiousness in its projections.

This approach justified itself. In 2018 the January surge of output growth rates already in February was replaced by extremely low index value. March data on output dynamics in Russian industrial sector demonstrated similar to February picture – weak growth which requires seasonal adjustment and expert handling of required positive results. In their output projections, Russian industrial sector exhibited in 2018 reasonable care (similar to demand projections). The balance of these plans hit multi-year highs in November 2017 and in January 2018 scaled back to the worst levels of 2017 and remained the same in February-March.

This demand and output dynamics together with their forecast determined in Q1 2018 rather logical and what is more important stable trajectory of estimates of finished goods inventory. In January 2018, amid upbeat demand the balance again was zero and then began gaining “weight” but highly slow and cautiously. In February, it moved up to +2 points, and in March – to +4. Thus, industry pessimistically assesses quick and final recovery from the crisis but preserves minimal surplus of stock of finished goods which speaks about enterprises' readiness to look for a way out of the stalemate of recent years.

Traditional new-year spike of factory-gate prices seen in 2018 turned out to be weaker than in 2017 – +16 points against +22 points registered a year earlier. In February, industrial enterprises in the same traditional way commenced to slow down their price growth – the balance fell to +11 points. However, in March, businesses were forced to raise price more intensively that look uncommon (the January price hike traditionally came to naught in the following months). In this case inflationary expectations experienced by Russian industrial sector were fueled by uncommonly high growth of costs which over three previous quarters exhibited transition from all-time low of +2 points to +27 points.

In early 2018, the Russian industrial sector was well provided with primary resources “amid projections of demand changes”, in other words, possible, although not quick recovery from the slow rolling 2015–2016 crisis. The shortage of qualified staff is felt by solely 11 percent of enterprises – close to the all-time low index after the default of 1998. Currently, only 12 percent of enterprises report excessive workforce, which gives zero balance of staff headcount estimates. However, this is true of the industry as a whole and the entire territory of the country. Due to the fact that labor mobility is very low in Russia certain enterprises in certain regions can suffer from the shortage of headcount. The Russian industrial sector reports less shortage of production capacities and at the same time higher overhang of production capacities surplus. However, again according to assessments of enterprises and “due to projected demand changes.” The shortage of production capacities in 2012–2017 was reported by 6–8 percent of enterprises and in Q1 2018 – 7 percent of enterprises. Sufficient provision with production capacities in 2017 reported 77 percent of enterprises which was an all-time high (1993–2017) of the Index. In Q1 2018, this index hit 73 percent with 20 percent surplus of production capacities registered in the Russian industrial sector. Thus, downbeat of investment plans has not resulted in a shortage of production capacities in the wake of prolonged recovery from the recession of 2012–2016.

In this context businesses exhibited high satisfaction with their investment plans. The investment volumes registered in Q4 2017 and Q1 2018 were seen as normal by the major part of the Russian industrial sector – 63 percent of enterprises. This is best result since 2011. Nevertheless, industrial enterprises were ready to revive their investment activity. In December-February the balance of the investment plans moved up by 16 points after a local minimum of November 2017 and again hit post-crisis maximum. However, in March the investment plans stopped gaining optimism and shed 3 points remaining nevertheless in steady “plus.”

In Q2 2018, the situation in Russian industrial sector did not undergo any significant changes. Most of Russian enterprises continued to register persistently low demand, which enabled them to confidently control their finished product inventory and maintain their output growth rate at minimum. In Q2 2018, growth in selling prices hit its three-year high, although it should be said that in June prices experienced a sharp drop.

According to the business surveys carried out by the Gaidar Institute, in Q2 2018 the demand for industrial goods did not undergo any radical changes. The change pace of the index according to traditionally somewhat understated assessments of the enterprises remained in the negative hovering around zero. Thus, product sales indicated neither a crisis-style collapse nor a decisive exit from the current lengthy stagnation. Demand forecasts were hovering around zero, thus promising no breakthroughs in the summer months of 2018.

However, such a situation had become something very familiar for the industry – so much so that 60 percent of enterprises have described their current sales volumes as normal. Dissatisfaction with the volume of demand has returned to its previous, relatively low level.

In Q2 2018, industrial enterprises were able to confidently control their finished goods inventory. The share of ‘within the norm’ assessments amounted on average to 71 percent, which exceeds the average result of 2017 (69 percent). At the same time, the balance of the other assessments (‘above the norm’ and ‘below the norm’) has been hovering around zero since the beginning of the year. However, this apparently positive result had a negative connotation, because industrial enterprises lack any hopes that sales would increase in the near future. As indicated by the entire history of our surveys, the small excess stockpiles accumulated by industrial enterprises represent a clear sign of their positive expectations.

Viewed against the background of a zero-balance of assessments concerning their finished goods inventory, the modest, but at the same time non-crisis-like demand parameters indeed enabled industrial enterprises to maintain in Q2 2018, their production output at marginally positive growth rates. Output plans have stabilized since March at a level of optimism that should be viewed as reasonable at a time of lengthy stagnation. These plans clearly indicate that industrial enterprises are determined to overcome the current torpidity.

Over the course of Q2 2018, the pricing policy of Russian enterprises underwent a number of serious changes. In April, industrial enterprises registered the most intense price growth since February 2017 and even higher one than in January 2018. However, as early as March 2018, enterprises announced that, contrary to tradition, they were not going to hamper price growth after the similarly traditional jump of prices in January due to vigorous costs growth. The April rise in this index was also provoked by a considerable weakening of the ruble's exchange rate. In May, the growth rate of producer selling prices jumped once again. As a result, over the course of the period from March through May 2018, the balance (pace of growth) increased by 11 points, thus hitting its three-year high. However, in June 2018 the situation sharply changed – the balance of actual changes in prices literally collapsed by 15 points, thus rolling back all the growth registered in March – May.

Over the course of Q2 2018, the level of occupational employment in Russian industrial sector also experienced some significant changes. In April, industrial enterprises continued personnel recruitment in the aftermath of the habitual surge in the rate of dismissals at the beginning of a calendar year. The ongoing rise in the number of personnel had been registered for the second month in a row, although, according to the recruitment plans of enterprises, it was expected either to come to a halt or to considerably decelerate in the next few months. The same conclusions were also drawn from the relatively lackluster forecasts of demand and output, and from the fact that industrial enterprises had achieved a record-high level of personnel sufficiency ‘in connection with the expected changes in demand’. At the beginning of Q2, this level of personnel sufficiency was registered by 85 percent of enterprises, more than at any time since 1996. In May, as it had been expected by enterprises, the number of industrial workers abruptly declined. However, bearing in mind that industrial enterprises registered maximum personnel sufficiency (for the entire period of observations), and

that their forecasts of demand and output were notably restrained, this circumstance should not result in an upsurge in personnel shortage in Russian industrial sector.

In the crisis conditions of 2015-2016 followed by a lengthy stagnation of 2012–2016, most of Russian industrial enterprises managed to pay their workers ‘within the norm’ wages. Moreover, during the reputedly crisis year 2015, the level of ‘normalcy’ of industrial wages (68 percent) was higher than that recorded in the non-crisis year 2014 (66 percent). In 2009, a really crisis year for Russian industrial sector, only 42 percent of enterprises considered the wages paid by them to be ‘within the norm’. And in H1 2018, as much as 80 percent of enterprises believed that their workers’ wages were ‘within the norm’.

Early in the third quarter, the Russian industrial sector experienced the biggest decline in demand for its goods in recent years. Initial balance of the sales changes literally collapsed to the level which is commonly registered in January when the whole country is on national holidays. Seasonally adjusted data show a slump to multi-year lows. In August-September the indicator went up by 8 balance points but remained in the red – demand according to traditionally downgraded assessments continued falling however not at the same pace as before. However, producers remembering previous failed attempts of complete and final exit from the crisis of 2015–2016 took the July sales decline in good spirit and 60 percent of enterprises said that they were satisfied with their sales volumes. Demand projections showed that sales would rather decline than see any buoyancy in the short term. Since April 2018, sales have consistently been at their lowest since mid-2016. The last time Russian industrial enterprises exhibited such downbeat sentiments about sales was in April 2015.

Adverse changes in the demand dynamics did not force enterprises to reassess their finished goods inventory in July. Moreover, the balance of assessment hovered around negative zero neighborhood when 74 percent enterprises said they had a normal level of finished goods inventory. In addition, the August-September period saw a slow increase in answers about a surplus of finished goods inventory–balance moved up (deteriorated) to +5 points. The surplus, however, was modest, suggests that industrial enterprises kept their finished goods inventory well under control.

Moreover, at the beginning of Q3 negative balance of the assessment of the finished goods inventory even amid the negative estimates of the demand dynamics allowed the Russian industry to retain the output from sharp adjustment. The balance of changes in the production went through adverse changes, which were not so drastic as the balance of changes in sales. The August adverse decline in the demand dynamics let the industry to adjust the real output dynamics for the better after the exceptionally bad result registered in the previous month. However, the pace of growth of real changes in production output remained negative: according to enterprises’ estimates output continued contracting although not at the same pace as was seen in July. In September, industry despite a weak demand took a risk to cross over from a nominal output reduction to its nominal growth. At the same time, the enterprises’ output plans fell at the end of Q3 to an 8-months low which still remained positive, i.e. the Russian

industrial sector's expectations for the output growth exceeded its expectations for the output decrease even amid around zero demand and finished goods surplus inventory forecasts.

Faced with weak demand, the Russian industrial sector had to switch in August to absolute cuts in prices at the factory gate. Usually, business surveys registered their minimum growth or cut in June when industry "put out" price hike seen at the turn of the year. However, in 2018 business surveys registered the highest growth not in January but in May when the balance of real changes literally surged to +22 points becoming a 40-months maximum. However, already in August the indicator plummeted to -3 points.

The situation with availability of credits for Russian industrial enterprises was stable in Q3 2018, with 66–69 percent enterprises saying their credit availability was normal. The overwhelming majority of borrowers said they had sufficient resources to service their outstanding loans. Furthermore, fundraising plans showed a more stable level in the period of 2017–2018 against 2015-2016 – at year-end 2017 there was no optimism and the demand reduction for loans seen in mid-2018 did not look so dramatic.

In Q4, the Russian industry was getting ready to face the VAT increase and correspondingly both to an increase in prices on its products and to purchased inputs, machinery and equipment. Growth of demand indicators let enterprises to exhibit positive output dynamics amid, however, control over finished goods inventory. Price forecasts also demonstrated definite growth will be already negative at the turn of 2019.

In October-December, demand indicators exhibited positive dynamics. Real changes in sales continued recovery after the July crash and added 5 points over the quarter. Demand forecasts moved up 6 points and hit maximum values during the year. The balance of assessments of finished goods inventory remained around zero amid definitive predominance (minimum 70 percent) of "normal" responses. This demonstrated enterprises' positive control over their stocks and minimal hopes for a sustainable demand growth even amid positive demand and output dynamics projected at the end of the year. In December, industrial enterprises reported sharp positive changes in the output dynamics. Both balances (actual and anticipated) following seasonal adjustment demonstrated growth by 15 points, which moved December values to maximum of the current year. However, the December surge of demand and output will be solely short-term front foot response of the enterprises to the planned by the authorities increased cost of products due to VAT increase.

Sure enough, enterprises' price forecasts in the wake of VAT growth, traditional January price hike and potential ruble devaluation demonstrated in December 2018 surge comparable with the result seen in December 2014. Then balance of inflationary expectations surged to +37 points and at present to +34 percent and outdid all interim maximums. Fast growth of products costs was another factor for the price growth forecasts. According to enterprises assessments, in Q3 and Q4 of the current year costs growth rates stood at +22 points. As a result, in 2018 industry faced the highest growth of product costs after 2015: +24 points against +14 seen in 2017, and +21 points in 2016. Product costs grew at a pace (balance) +34 points in 2015.

4.3. Fixed investment¹

4.3.1. Investment resources

Macroeconomic situation in 2017–2018 was marked by the outstripping growth rates of fixed investments relative to GDP performance and final consumption of households. In 2018, amid fixed investments increase by 4.3 percent, GDP growth constituted 2.3 percent relative to the corresponding period of the previous year. However, despite the upward trend of fixed investments seen in 2017–2018, the economy has retained the impact from the acute investment crisis of 2014–2016. Vis-a-vis pre-crisis 2012 fixed investments registered in 2018 came to merely 97.3 percent and the construction work volume to 95.7 percent (*Table 11*).

Table 11

Fixed investments, final consumption of households and GDP in 2012–2018, in percent to previous year

	2012	2013	2014	2015	2016	2017	2018
Fixed investments	106.8	100.8	98.5	89.9	99.8	104.8	104.3
Final consumption of households	107.9	105.2	102.0	90.6	98.1	103.2	102.2
Gross domestic product	103.7	101.8	100.7	97.5	100.3	101.6	102.3
Index of physical volume of fixed assets	104.3	104.1	103.7	103.2	103.9	103.8	103.3*

*- preliminary data

Source: Rosstat.

Industrial output recovery growth, gradual getting over the crisis in the construction sector have positively affected financing of the investment activity.

The negative factors were price growth acceleration on the capitalized purchased amid raising by the Bank of Russia of the key rate from 7.25 percent (26.03.2018) to 7.50 percent (17.09.2018), and 7.75 percent (17.12.2018) and increase scale of capital outflow in 2018 to USD 67.5 billion against

USD 25.2 billion a year earlier in the wake of scaling back of direct foreign investments in the Russian economy in 2018 (*Table 12*).

Table 12

Financial conditions for investment activity in 2014–2018

	2014	2015	2016	2017	2018
1	2	3	4	5	6
Key rate (year-end), percent	17.00	11.00	10.00	7.75	7.75
International reserves of the Russian Federation (year-end), USD billion	385.5	368.0	376.3	432.1	468.5
Private sector transactions (net lending (+) /net borrowing (-)), USD billion.	152.1	57.1	18.5	25.2	67.5
Price index, December to December of previous year, including:					
Consumer prices on goods and services	111.4	112.9	105.4	102.5	104.3
Producers' prices on industrial goods	105.9	112.4	107.5	108.4	111.7
Composite price index of capital goods,	107.2	110.3	103.2	103.1	107.8

¹ This section was written by O. Izryadnova, Gaidar Institute, RANEPa.

Cont'd

1	2	3	4	5	6
including:					
Producers of construction products	104.6	104.1	106.6	104.9	106.5
Purchase of machinery and equipment	112.3	120.1	97.8	101.1	108.9
Official Ruble USD exchange rate (year-end), RUB/ USD	56.26	72.88	60.66	57.60	69.47

Sources: Rosstat, Bank of Russia.

In the context of economy income growth seen in 2017–2018, the structure of GDP registered increase of the share of gross national savings against the previous three years. Growth of income and other mixed income in GDP amid current interest rates and inflation as a whole for the period have not significantly affected the investment decision making. The share of fixed investments in GDP in 2018 decreased to 17.0 percent against 17.4 percent in 2017, and 18.5 percent in 2012 (*Table 13*). On the contrary, similar proportions have boosted the formation of saving propensity both of business and individuals. For example, the share of attracted by the credit institutions corporate funds in 2018 amounted to 20.9 percent of GDP and household deposits to 27.5 percent of GDP. Decline of household real income has added to the decrease of household contribution in the formation of potential investment resources. The investment resources structure has changed across institutional investors: in 2017–2018 the role of non-financial corporation went up. Toughening of budget constraints resulted in the reduction of budget investment in fixed capital seen in 2018 to 2.1 percent of GDP, including from the federal budget down to 0.6 percent of GDP (*Table 13*).

Table 13

**Main characteristics of principal investment sources
in 2014–2018, as percent of GDP**

	2014	2015	2016	2017	2018
Gross savings	28.6	29.8	28.5	29.2	33.1
Fixed investment	17.6	16.7	17.2	17.4	17.0
Gross income and other mixed revenues	38.9	42.3	41.7	42.1	42.9
Consolidated budget revenues	33.8	32.3	32.8	33.3	35.6
Budget funds for investment,	2.2	2.3	2.2	2.1	2.1
Including federal budget funds	1.2	1.4	1.2	1.1	0.6
Deposits of individuals	23.4	27.8	28.2	28.2	27.5
Corporate deposits	21.5	22.8	19.0	19.4	20.9

Source: Rosstat.

Resource potential of investment activity in 2018 was determined by the positive development of capital stock commissioning in 2016–2017. Coefficient of renewal of fixed assets has gone up amid reduction of degree of depreciation and contraction of proportion of outspent fixed assets for the whole of economy. However, this was not kept up with increased return on assets and significant change in the investment structure in fixed assets by source and by type of activity.

**4.3.2. Fixed investment financing by source
and by type of ownership**

Financing of fixed investment in 2015–2018 was dominated by own funds of enterprises and organizations. In 2018 the share of investment from own funds of

organizations hit maximum for the twenty years monitoring period of 54.3 percent of the total fixed investment volume. Growing rate of own funds in financing sources was entailed by increase of financial performance results of enterprises and organizations for the whole of economy by 66.6 percent and rate of return to 12.1 percent against 7.2 percent in 2017.

Increased participation of Russian banks in financing investment projects in 2018 offset absolute contraction of foreign loans and investments in the structure of raised funds (*Table 14*).

Table 14

**Structure of fixed investments by sources of financing in 2014–2018,
in percent to total (less small businesses and informal activity)**

	2014	2015	2016	2017	2018
Fixed investment, total	100	100	100	100	100
Including by sources of financing:					
Own funds	45.7	50.2	51.0	51.3	54.3
Attracted funds	54.3	49.8	49.0	48.7	45.7
Of which:					
Bank loans	10.6	8.1	10.4	11.2	10.8
Russian banks loans	8.0	6.4	7.5	5.8	6.2
Foreign banks loans	2.6	1.7	2.9	5.4	4.6
Borrowed funds from other institutions	6.4	6.7	6.0	5.4	4.0
Foreign investments	0.9	1.1	0.8	0.8	0.6
Budget funds	17.0	18.3	16.4	16.3	15.3
including:					
Federal budget funds	9.0	11.3	9.3	8.5	7.4
RF subjects budget funds	6.5	5.7	6.0	6.7	6.8
Local budget funds	1.5	1.3	1.1	1.1	1.1
Extrabudgetary funds	0.2	0.3	0.2	0.2	0.2
Funds obtained from shared construction (organizations and population)	3.5	3.2	3.0	3.3	3.0
Including funds of population	2.7	2.4	2.3	2.5	2.2
Other	15.7	12.8	12.2	11.5	11.8

Source: Rosstat.

2016–2018 saw a reduction in the share of budget funds allocated for fixed investment. In 2018, budget funds stood for 15.3 percent of the total amount of investment in the economy. Compared to 2017 significant decrease of the federal budget investment was registered compensated by investment from budgets of other levels of government.

The proportion of household funds directed on the housing cost-sharing construction in the overall investment sources has also decreased. However, despite the reduction of income and contraction of the rate of saving, the investment activity of the population was maintained by demand growth on housing and mortgage loans. For example, in 2018 banks issued to individuals RUB 3.0 trillion of housing loans up 49 percent against 2017.

In the investment strategy for 2016–2018 the state role as a subject of the investment process consisted in the active involvement in the process of formation of Russian corporate sector with an accent on creation, optimization and structural evolution of large companies. Recognition of the large business as the major subject of the national economy modernization was entailed by increased contribution of large companies with

state participation in the total volume of investment. In 2018, the ratio of investment from other sources of financing dominated by the institutional investors constituted 11.8 percent in the overall volume of investment and increased by 0.3 percentage points in comparison with the previous year.

During 2014–2018 private enterprises and enterprises with joint Russian and foreign ownership managed to raise nominal investment volumes in fixed assets, which partially offset unstable investment activity of state and municipal enterprises. In 2018, Russian private ownership enterprises accounted for 60.9 percent and of foreign and joint Russian and foreign ownership enterprises accounted for 14.4 percent of investment. Analysis of the structure of investment formation in fixed assets by all forms of ownership in 2017–2018 demonstrates retention of positive role of the private sector in the investment process amid stabilization of state and mixed Russian forms of ownership (*Table 15*).

Table 15

**Fixed investment by forms of ownership in current prices,
in percent to previous year**

	2014	2015	2016	2017	2018
Fixed investments, total	103.4	100.0	106.1	108.7	109.8
State	89.4	99.2	109.1	103.2	105.2
federal	94.9	105.0	99.3	103.4	101.8
ownership of subjects of Federation	82.2	90.4	126.2	102.8	110.0
municipal	100.8	88.8	97.6	97.7	100.0
mixed Russian	106.3	84.3	101.3	104.2	107.6
ownership of state corporation	103.9	84.0	103.5	93.3	108.1
private	108.0	100.9	104.3	113.1	115.1
foreign and joint Russian and foreign ownership	100.	112.9	114.7	104.1	97.6

Source: Rosstat.

4.3.3. Fixed investments by type of capital stock

The feature of 2018 was the growth of construction volume by 5.3 percent relative to 2017 (*Fig. 19*). Upsurge of business activity seen in construction and investment complex did not offset the consequences of the four-year crisis and the construction volume indicator in 2018 constituted 95.6 percent of the 2013 indicator when the first signs of stagnation were determined.

Since 2010, amid general downward trend of financing aimed at construction works and services in general volume of fixed investment steady increase of expenses rate on new technical equipment was registered. In 2017, purchase of fixed capital assets accounted for 28.2 percent of fixed investments, thereby purchases of machines, equipment and means of transport accounted for 82.7 percent of expenses directed on this type of investment activity. Average age of operating machinery and equipment decreased from 13.5 years in 2010 to 11.8 years in 2015 (start of the year). Demand for new equipment in the majority of cases is due to the reduction of economic efficiency from operation of the old types of equipment.

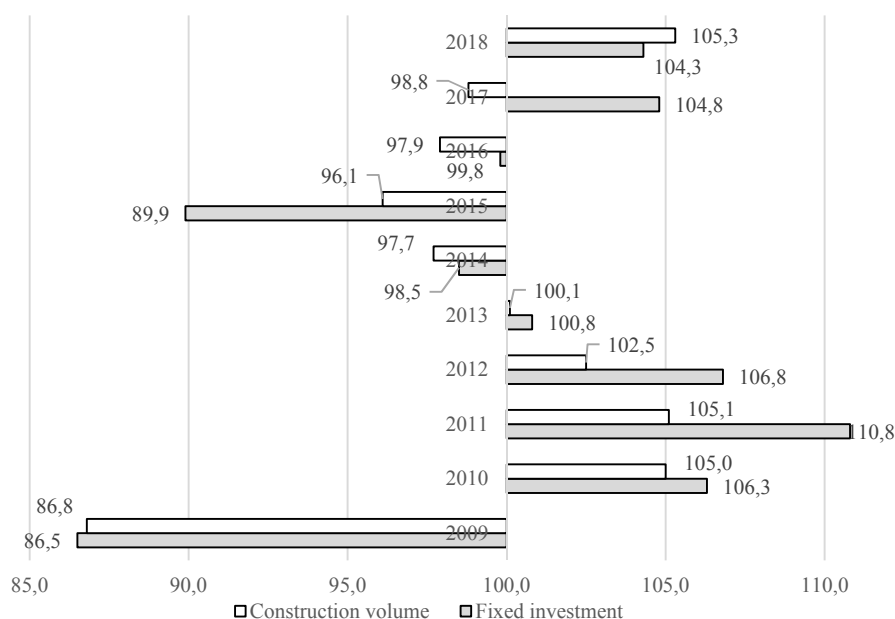


Fig. 19. Dynamics of fixed investment and construction volume in 2013–2018, in percent to previous year

Source: Rosstat.

Positive factor was seen in the increase of investment rate in information technology, computer and telecommunications equipment, which create conditions for further development of digital technologies. In the structure of investments by type of capital stock the share of investment in machinery and equipment in 2018 moved up to 34.6 percent in the context of exceptionally low for twenty years of statistical monitoring indicator of 31.5 percent in 2015–2016 (Table 16).

Table 16

**Structure of fixed investments by type of capital stock
2013–2018, in percent to total**

	2013	2014	2015	2016	2017	2018
Fixed investments, total	100	100	100	100,0	100	100
including:						
residential buildings and facilities	12.5	14.5	15.6	14.7	13.6	12.7
buildings (minus housing) and facilities, spending on land improvement	41.5	40.8	43.7	44.7	43.8	43.3
machinery, equipment, including household equipment and other facilities	38.8	36.3	31.5	31.5	33.7	34.6
intellectual property items					2.8	3.1
other	7.2	8.4	9.2	9.1	6.1	6.3

Source: Rosstat.

At year-end of 2017, simultaneous recovery of the upward production dynamics of domestic and imported capital goods took the pressure of the investment and construction sphere. In 2018, the share of capital goods in the overall imports volume decreased to 25.4 percent against 27.5 percent a year earlier, and the import of such

goods constituted 96.6 percent of the previous year indicator. Increment of domestic manufacture of machinery and equipment in 2018 stood at 12.0 percent, which allowed maintaining positive dynamics of construction and investment complex, however was obviously insufficient for growth boost especially in the segment of large enterprises and organizations. In the context of existing dynamics and structure of machine-building complex and retention of sanctions on import of certain types of equipment and machinery imbalance of the technical structure of investments becomes one of the main factors restricting investment activity rates.

Change in the performance of construction activity was followed by structural shifts in the investment use by type of capital goods. 2016–2018 saw contraction of the aggregate share of fixed investment in housing buildings and non-housing facilities. Following the peak of spending on housing construction seen in 2015 subsequent three years registered gradual contraction of investment percentage by this type of capital goods. In 2018, the ratio of investment in construction of buildings and facilities decreased to 12.7 percent of the total volume of investment in the economy against 13.6 percent in 2017, and 15.6 percent in 2015.

Share of investment in the construction of industrial buildings and facilities, structures of social and market infrastructure in 2018 decreased to 43.3 percent against 44.7 percent in 2016, which was maximum for the entire period of observation since 2000.

In 2018, commissioning of housing constituted 95.1 percent and the floor area of non-residential structures totaled 87.8 percent to the 2017 indicator and in the context of three-year trend of contraction of housing commissioning the 2018 indicator came to 88.2 percent of an all-time high of 2015. In 2018, private developers commissioned 32.5 million square meters (43.1 percent of the overall housing volume commissioned in 2018) given 33.0 million square meters (41.6 percent) in 2017, and 35.2 million square meters of the overall housing floor space (41.2 percent) in 2015 (*Fig. 20*).

State program documents determine the development of residential housing construction and the housing services as a guideline for raising quality of life and a driver for modernization of the social sphere and economy.

Commissioning of the overall living space per 1,000 persons moved up from 207 sq. m in 2000 to 513 sq. m in 2018. Average floor space of residential facilities per capita for the whole of economy constitutes 24.9 sq. m. However, improvement of the housing stock is marked by rather low indicators. Water supply is fitted to 91 percent of urban housing stock, sanitation – 89 percent, central heating – 93 percent, and hot water supply – 82 percent. In rural area water supply is not fitted in 41 percent of residential housing, sanitation – 52 percent, and gas supply – 27 percent. The housing and utility complex registers growing depreciation of capital assets and of accident rate, resource waste is high, and energy efficiency is low. In 2017, percentage of heat network requiring replacement constituted 29 percent, water supply and sanitation networks – 42.3 and 43.6 percent, respectively. Centralized water supply system is installed only in 90 percent of households. More than 2/5 of households use additional tools for water

treatment. The situation is aggravated by the lack of modern sanitation systems in a quarter of the housing stock, which negatively affects ecological characteristics of safe living.

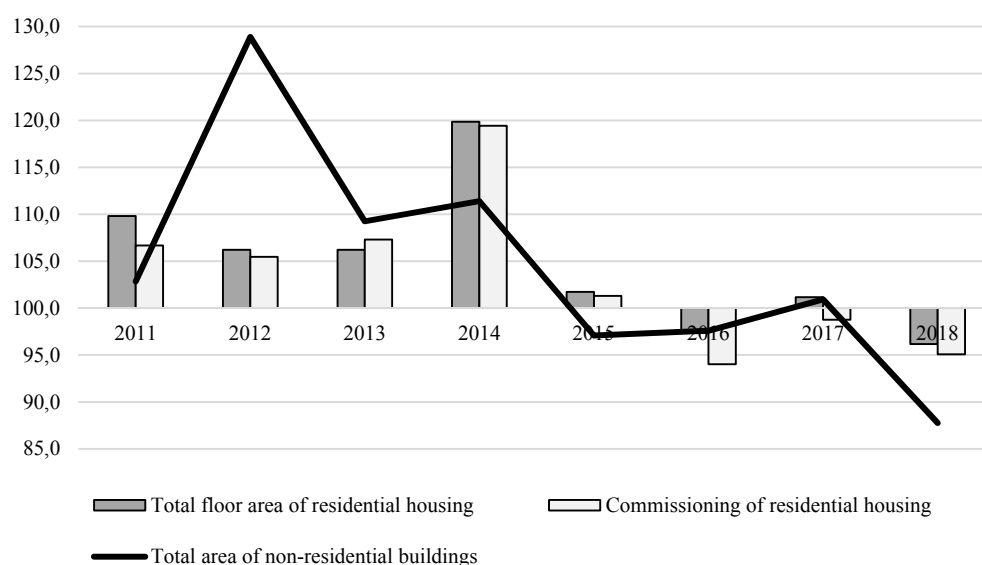


Fig. 20. Dynamics of commissioning buildings and residential housing in 2011–2018, in percent to previous year

Source: Rosstat.

The share of dilapidated and substandard housing in 2017 constituted 2.4 percent of the total housing stock. Despite the upward trend of resettlement from the dilapidated residential housing and capital repairs to blocks of flats current rates remain insufficient for the final resolution of these issues. Paramount in this case is modernization of the housing stock via private and institutional investors in the housing construction and creation of efficient regional systems for capital repairs.

Over a prolonged period of time the Russian economy is characterized by outstripping rates of residential housing commissioning from own funds. Private developers in 2018 commissioned 32.5 million sq. m (43.1 percent of total housing commissioned in 2018) against 33.0 million sq. m (41.6 percent) in 2017 and 35.2 million sq. m (41.2 percent) in 2015.

Mark-up of population participation in housing construction and upsurge of spending of real estate purchase have resulted in structural shifts in financing of construction programs and change of characteristics of commissioned residential housing. In the context of income differentials, the development of the residential housing sector was accompanied by growing social stratification and unequal size of the living space. In 2017, commissioning of single-family houses moved up by 1.3-fold in comparison with 2010. Average apartment size in blocks of flats constituted 69.0 sq. m and in single-family houses – 135.1 sq. m (Table 17).

Table 17

Number and average size commissioned apartments

	2011	2012	2013	2014	2015	2016	2017
	Total						
Number of apartments, thousand units	786	838	929	1124	1195	1167	1139
Average size, m ² of total space	79.3	78.4	75.8	74.9	71.4	68.7	69.0
	By population from their own or borrowed funds						
ЧNumber of apartments, thousand units	201	211	228	268	272	251	244
Среднийaverage size, m ² of total space	132.9	134.4	134.4	135.2	129.6	126.7	135.1

Source: Rosstat.

In 2017–2018, according to estimates 13.4 percent of households resolved to improve living conditions via cost-sharing construction and purchase of other residential housing and merely 11 percent intended to improve the living conditions due to house demolition or queuing. Those households intending to purchase other housing nearly every third plans to build a single-family house for permanent residence. Mortgage, proceeds from the sale of current housing and savings remain the main source of funds for housing purchase. 2018 saw recovery of the mortgage market: banks issued 1.47 million mortgages to the tune of RUB 3 billion. Factors recently boosting mortgage development were inflation slowdown, gradual reduction of the interest rates. Non-residential housing market growth with high differentiation of asking price.

Increased accessibility of mortgage loans for individuals, credits for developers, decrease and efficient distribution of credit risks among all market participants and expansion of the resource base of mortgage lending is perceived as one of main instruments for maintaining solvent demand on the real estate market.

4.3.4. Investment activity by type of economic activity

In 2018, fixed investment dynamics for the whole of economy was mostly affected by slowdown of large enterprises business activity which account for ¾ of capital investments. In 2017 increment of large enterprises investments in fixed capital hit 4.2 percent, and in 2018 slowed down to 2.2 percent.

Investments growth in industry seen in 2017–2018 did not compensate the decline of investments in 2014–2015.

The investment activity was marked by outstripping rates of fixed investments in the mining sector. During 2013–2016 in the wake of fixed investments decline for the whole of economy by 11.7 percent growth of fixed investments in the mining sector hit 13.3 percent. Prospecting and exploring, oil-well drilling as well as liquefying and treatment of natural gas on extraction fields were drivers of fixed investments in the sector. 2017–2018 saw adjustment of fixed investments structure due to final stage of implementation of natural gas liquefying projects and registered boost of investments in hydrocarbons and metals extraction which offset contraction of investments during previous three years. Amid a decline of investments growth rates in services development in the mining sector which accounted for 27.3 percent of the total fixed investments in natural resources extraction, 2018 registered stabilization of fixed investments in this type of economic activity as a whole (*Fig. 21*).

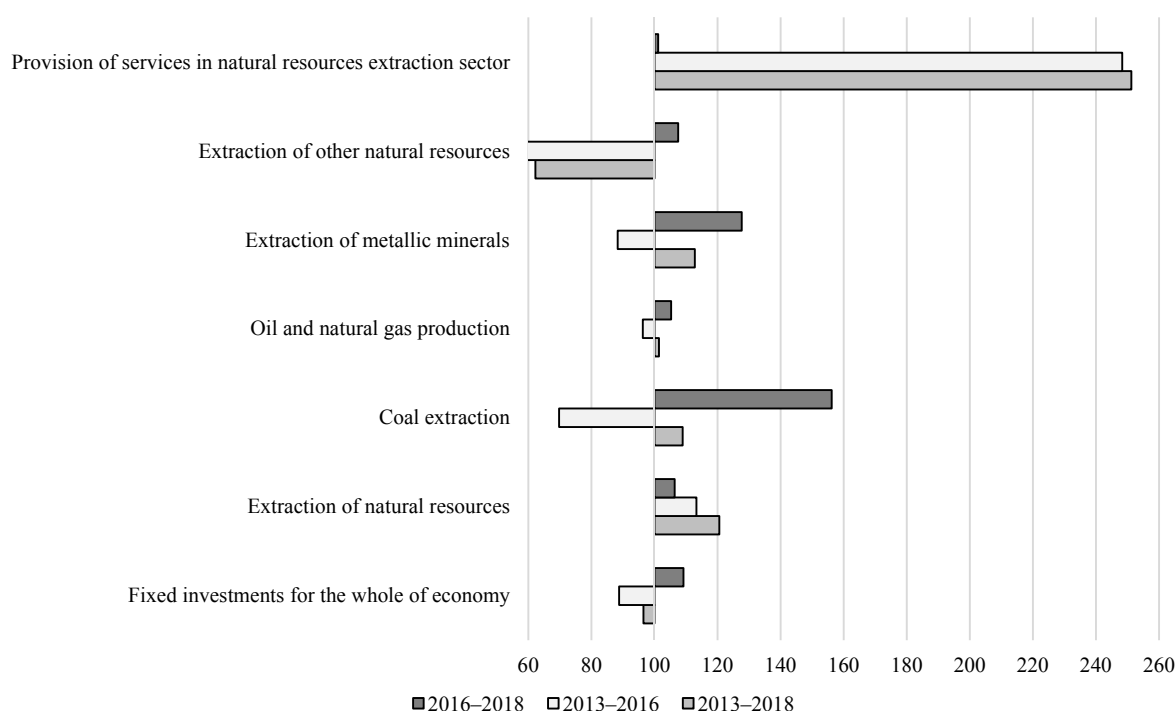


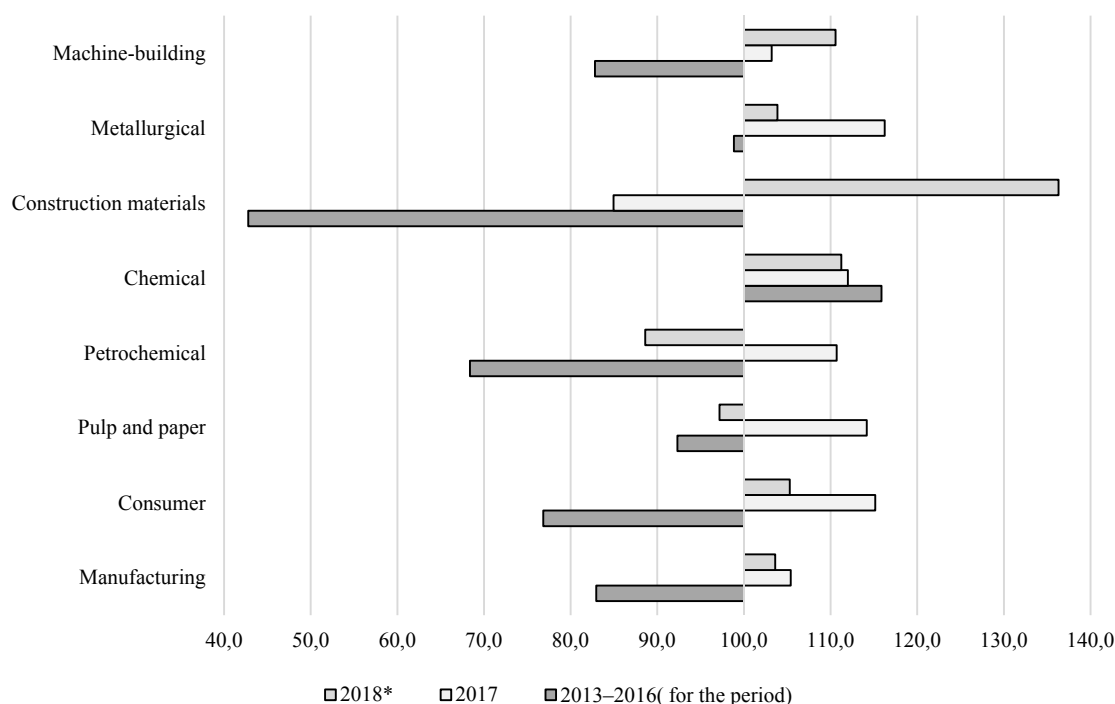
Fig. 21. Fixed investments dynamic in natural resources extraction during 2013–2018, in percent for the period

Source: Rosstat.

Structural changes in the investment activity in industry as a whole during 2014–2018 were determined by an outstripping investment upsurge in extraction of natural resources against manufacturing and generation and distribution of electric power. Despite the fact that fixed investments over last two years demonstrated recovery, these two types of economic activity have not overcome the consequences of acute investment crisis of 2013–2016. On the whole fixed investments in manufacturing sector in 2018 constituted 90.6 percent and in supply of electricity, gas and vapor around 70 percent of the 2014 indicator.

In 2018, fixed investments by large and medium sized enterprises of the processing sector moved up 3.6 percent which smoothed negative dynamic of the previous year. Renewal of positive dynamics of fixed investments in machine-building, metallurgical and chemical complexes, in production of construction and structural materials has reduced the negative effect of the investment crisis. In 2018 fixed investments upsurge in the machine-building complex came to 10.6 percent amid the outstripping growth rates of fixed investments in automobile manufacturing and special-purpose production. Investment activity in manufacture of electrooptic products and electric equipment compared to the previous year.

Amid change of business environment on the domestic market the trend towards expansion of investment activity in the pharmaceutical sector and consumer complex was observed from 2016. (*Fig. 22*).



*by large and medium sized enterprises.

Fig. 22. Fixed investments dynamic in manufacturing industry by industrial complex in 2013–2018, in percent to previous year

Source: Rosstat.

The period of 2016–2018 saw such feature as increased share of agriculture, commerce, hotel business, service provision in tourism and construction in the overall fixed investments by full circle of enterprises. These types of economic activity are determined by high rate of investments in small business in total volume, their contribution to the overall investment volume in the economy by around 1.1 percentage points. However, one should not overestimate the effect of institutional demand of small business taking into account the fact that its growth made adjustments following a sharp decline of business activity seen in 2014–2016 (*Table 18*).

Advanced growth of fixed investments in the development of transport and communication infrastructure, transportation and storage (105.2 percent to 2017), information and communication (118.1 percent) positively affected the recovery of fixed investments growth in 2018.

According to long term development strategy the social sphere becomes one of the priorities of development.

Table 18

**Index of physical volume of fixed investments in 2014–2018,
in percent to previous year**

	By full circle of enterprises				By large and medium sized enterprises	
	2014	2015	2016	2017	2017	2018
Agriculture	92.4	87.9	112.5	109.7	101.3	104.6
Construction	103.8	77.7	103.6	110.1	96.3	120.1
Wholesale and retail trade	102.7	87.3	108.8	96.6	90.3	103.2
Hotels and catering business	110.3	78.0	94.8	89.0	74.4	119.2
Tourist agencies and organizations which provide services in the tourist sphere	77.5	89.7	380.0	81.7	195.9	220.0

Source: Rosstat.

In 2014–2018 investment activity in the social sphere as a whole corresponded budget spending on social and cultural events. The share of social sphere in GDP over last four years steadily remains at 7.2 percent, in fixed investments – 4.0 percent, and in the consolidated budget expenditures – 57.3 percent. In 2016, investments in education constituted merely 70.4 percent, healthcare – 63.2 percent, culture and sports – 57.5 percent compared to the pre-crisis indicator of 2013. Investments growth in the social sphere development seen in 2017–2018 have positively affected the performance (Table 19).

Table 19

Commissioning of facilities of social and cultural spheres in 2014–2018

	2014	2015	2016	2017	2018
Hospitals, thousand beds	2.7	4.3	6.1	3.9	2.9
Outpatient polyclinics, thousand visits per shift	18.8	23.7	18.1	20.7	23.4
Educational organizations, thousand pupils	55.7	66.3	90.3	108.4	95.6
Pre-school educational organizations, thousand places	128.9	143.3	63.3	40.8	46.7
Higher education organizations, thousand m ² of total educational and laboratorial facilities	84.5	222.0	220.2	109.1	95.6
Vocational organizations, thousand m ² of total educational and laboratorial facilities	16.1	8.9	7.0	32.3	3.8
Club-type cultural institutions, thousand places	17.4	16.0	16.5	21.0	14.0

Source: Rosstat.

The need to increase spending on investment projects in healthcare is determined by a low level of amenities in outpatient clinics. The level of depreciation of capital stock in healthcare comes to 57.0 percent (amid average in the economy of 48.1 percent), and commissioning of new capital stock – 2.2 percent (4.4 percent). In 2017–2018 more than ¼ of hospitals and 1/5 of outpatient facilities required reconstruction and capital repairs.

Resolution of healthcare upgrade issues requires both increase of fixed investments and their structural change. Growth of fixed investments in healthcare system in 2018 came to 14.0 percent against last year. In line with the change in approaches to the provision of medical services commissioning of outpatient facilities went up against the contraction of commissioning of hospitals. Transition to new technologies in healthcare system the demand is increasing on modern medical equipment, technologically advanced means of transport, software and protection of intellectual property. In the healthcare organizations' costs on information and communication technologies nearly

¼ accounted for the purchase of computers and office machines and 15 percent for software.

Investments in education in 2017–2018 accounted for 1.4 percent of the overall volume of fixed investments for the whole of economy. In the current financing structure of the social sphere 2018 saw 142.3 thousand new school places in comprehensive and pre-educational institutions down 14.6 thousand against the 2016 indicator. This reduces outreach to children by pre-school educational institutions and retention of the high level of general education students in second and third shifts. One should also keep in mind low material and technical provision of educational institutions with capital stock depreciation hitting 50 percent and the coefficient of renewal stays at 2.5 percent (4.2 percent for the whole of economy).

The development plans envisage by 2025 ensure 100 percent of accessibility of pre-school institutions for children owing to the creation of 100 thousand additional school places in public and private institutions. It is envisaged to create in educational institutions 6,531.3 thousand new school places. Construction of new and renovation of operating schools including by way of building infrastructure facilities will increase by 2025 the number of new school places by 100 thousand of which around 25 thousand for children living in rural areas and urban type settlements. Development and modernization of vocational and higher education institutions envisages increase of training and laboratorial spaces and qualitative improvement in their provision with modern equipment and digital technology. Reaching such ambitious target envisages significant increase of investments in this type of activity. The share of investments in the development of the facilities of cultural, sports and tourist-recreational infrastructure moved up to 2.0 percent in 2018. In the period 2014–2018 the number of facilities of physical fitness and sports went up by 5.6 percent.

Among the conditions for investment activity growth are simplification of procedures for doing business and creation of adequate infrastructure and mechanisms for attraction of investments, title guarantee, creation of small and medium businesses, decrease of institutional barriers.

4.4. The oil and gas sector¹

The oil and gas sector is among the basic ones of the Russian economy and is playing an important role in the income generation for the state budget and Russia's trade balance. Implementation of the OPEC+ agreement regarding the production restriction has resulted in the world crude oil prices growth. In 2018, the volumes of crude oil production peaked for the entire post-Soviet period and the extraction and export of the natural gas hit all-time high. Under the first stage of tax maneuver in force in the oil industry, the refining depth and increased volumes of export of petroleum products observed before its implementation were replaced by contraction of production and export of fuel oil and by the reduction of crude oil refining and export of petroleum

¹ This section was written by Yu. Bobylev, the Gaidar Institute, IAES RANEP.

products. Oil refining depth moved up markedly. It was decided to gradually complete tax maneuver in the oil sector and introduce the additional profits tax (windfall tax).

4.4.1. Dynamics of global oil and gas prices

Recent years were marked by the emergence of two significant factors – the development of U.S.’s shale oil-fields bolstered by advanced drilling methods and cooperative agreements to limit oil production, known as OPEC+ – that have a strong impact on the global oil market. Rapid increase in the U.S.’s shale oil production led to a crude supply glut in the global market and drastic slump in oil prices in 2015–2016 (*Table 20, Fig. 23*). Facing this context, OPEC countries refused to cut their oil production quota and in fact switched to a policy of retaining their market share in the global oil market, seeking to increase supply volumes and thus offset contraction of revenues. Subsequently, the price of Russian crude oil Urals on the world market dropped from USD107.1 per barrel registered in H1 2014 to USD 51.2 per barrel in 2015 and to USD41.9 per barrel in 2016.

Table 20

World crude oil prices in 2014–2018, USD/bbl

	2014	2015	2016	2017	2018 March	2018 June	2018 September	2018 December
Brent crude price, UK	98.9	52.4	44.0	54.4	66.5	75.2	78.9	56.5
Urals crude price, Russia	97.7	51.2	41.9	53.1	63.7	73.4	78.1	57.6
Prices on Russian gas on European market, USUSD/thousand cubic m.	314	225	157	179	212.6	212.8	233.4	246.9

Sources: OECD/IEA, World Bank, Rosstat.

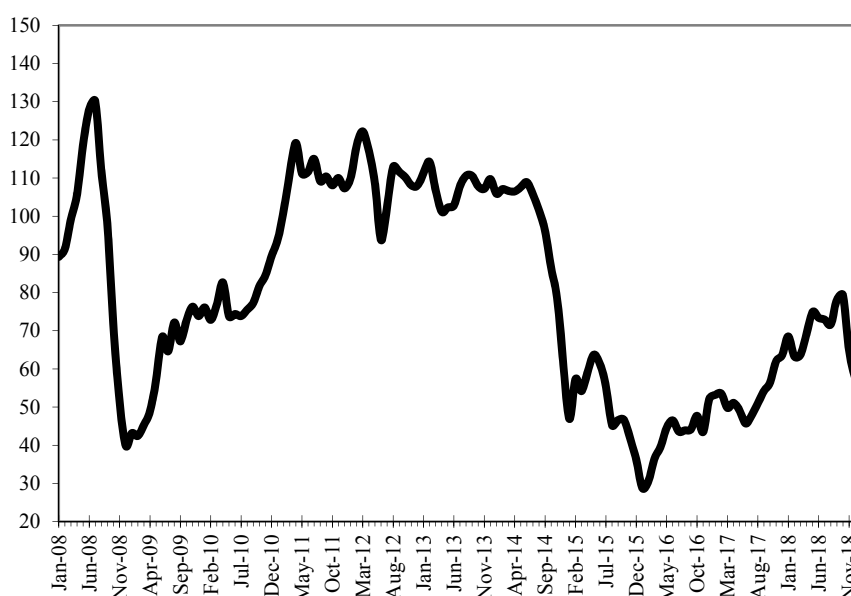


Fig. 23. Urals crude oil price in 2008–2018, USD/bbl.

Source: Rosstat.

The decline in oil prices spurred oil-producing countries into taking decisive actions on output cuts. At the end of 2016, OPEC and a group of oil producing countries from outside OPEC, including Russia, concluded a production cut agreement in effect since 1 January 2017. In compliance with this agreement OPEC+ obligated to reduce its oil production by 1.8 million barrel per day, and 11 non-OPEC countries, agree to cut output by 558,000 barrels per day, of which Russia by 300,000 barrel per day. In an effort to decrease further the oil supply glut, the OPEC and non-OPEC parties to the agreement decided in May 2017 to extend the agreement for another nine months, that is, between July 2017 and March 2018. In late November 2017, parties to the agreement took a decision to extend the effective date of the agreement through the end of 2018. Meanwhile, some of the parties to the agreement (Venezuela, etc.), for various reasons, experienced a drastic decline in oil production. As a result, the real reduction in oil production by OPEC+ has turned out to be considerably higher target than envisaged by the agreement.

In this context, in June 2018 OPEK+ decide to raise production from early July by 1 million barrels per day compared to May with a provision for switching from the previous per-country control over the agreed output targets to a control over total crude oil output (by 1.8 million barrels per day below the level of October 2016) of the parties to the agreement. As a result, countries with spare potential had the opportunity to boost their production in H2 2018. Saudi Arabia (representing nearly 70 percent of OPEC's available capacities) and Russia were the first to do this.

Implementation of OPEC+ agreements resulted in the excessive supply was cut and the world prices went up noticeably. For example, the Brent price rose from USD 44 a barrel in 2016 to USD 54.4 a barrel in 2017, and USD 71.1 a barrel on average in 2018. The Urals price averaged USD 69.8 per barrel in 2018, in other words moved up by 66.6 percent in comparison with 2016 and by 31.5 percent against 2017.

A markedly buoyant demand also had a positive effect on the market balance and on oil prices. Global oil demand increased 1.5 million barrels per day in 2017 (or 1.6 percent year-on-year), and by 1.5 million barrels per day in 2018, or by 1.3 percent in 2018, according to the International Energy Agency estimates, OECD.

What is important to note, however, is that the effect of the OPEC+ agreements has been increasingly weakening due to the recovered growth in the U.S.'s shale oil production as well as the increase in oil production by some other non-OPEC major oil producers. Technological advancement and cost effectiveness allowed the U.S. oil industry to adapt to lower prices. As a result, there has been growth since 2017 in the U.S.'s crude oil production and in the number of U.S.-based operating oil rigs. According to data from the U.S. Energy Information Administration (EIA), the United States pumped 9.35 million barrels/d in 2017, or 0.49 million barrels/d (5.5 percent) up from 2016, and in 2018 it was 10.88 million barrels/d, rising 1.53 million barrels per day (16.4 percent) above the level seen in 201.

The oil price rise was somewhat influenced by announced U.S. sanctions against Iran effective since November 2018, which envisaged a ban on purchases of Iranian crude

oil and configured expectations of drastic oil output cut in the country. Consequently, crude oil was traded at more than USD 80 per barrel early in October. Later, however, the United States said it will temporarily (within a period of six months) allow eight countries, including big oil importers such as China, India, Japan and South Korea, to keep buying Iranian oil. That had a strong effect on market participants' expectations.

The increase in output by biggest oil-producing nations (The United States, Saudi Arabia, and Russia), relaxation of the U.S. sanctions against Iran and some other factors led to a substantial decline in oil prices during the last few months of the year. Brent crude oil dropped to USD 65 per barrel in November and slid to USD 56.5 in December.

In this context, OPEC+ members agreed on 7 December 2018 to reduce, from 2019 onwards, their crude oil production by 1.2 million barrels per day from the output seen in October 2018. The output cut agreement is supposed to stay in force until the end of June 2019 and can be updated in April 2019. Under the agreement, OPEC members will reduce their output by 800,000 barrels per day and non-OPEC major oil producers by 400,000 barrels per day, with Russia taking on 228,000 barrels per day (by 2 percent). However, the output cut commitments do not apply to Iran, Venezuela and Libya where oil production is already low, plus Iran is facing the risk of reducing further its output in case of tougher U.S. sanctions against purchases of Iranian crude. Owing to weather conditions and technological environment, Russia will reduce its oil production in Q1 2019, under the agreement, and maintain it at the same level for the next three months.

Prices on Russian natural gas exported abroad on long-term contracts, as a rule, are linked to the prices of petroleum products and owing to this factor follow the world crude oil prices with a certain lag. Owing to the plunge average export price on Russian natural gas in 2018 moved up to USD 221.2 per thousand cubic meters or up 40.9 percent in comparison with 2016 and by 23.6 percent against 2017. Meanwhile changes that took place on the European market over recent years—increased supply of gas by other natural gas producers and lower spot prices on natural gas compared to the prices of long-term contracts signed by Gazprom produce downward pressure on the Russian natural gas.

4.4.2. Dynamics and structure of production in oil and gas sector

Volumes of crude oil output in 2018 were governed by Russia's compliance with her commitment taken within OPEC+ agreements. Owing to the possibility granted by the agreement in H2 and at 2018-end, oil output in Russia reached 556 million tons up 1.7 percent in comparison with the previous year (*Table 21, Fig. 24*). This was an all-time high since 1989 (Russia peaked its oil output in 1987 by 569.4 million tons). Extraction of gas (including natural, associated, and gas condensate) in 2018 increased to 741 billion cubic meters, which is an all-time high. Russia boasts of a significant potential in order to maintain and increase current volumes of oil and gas output. At the same time, the oil sector faces deteriorated production conditions. Considerable share of

producing fields demonstrate a downward trend of extraction and the new deposits in the majority of cases have not as good mining-and-geological and geographic parameters. Their development requires higher investment, running and transportation costs. In order to offset falling production on the brown fields, it is necessary of develop both new oil deposits in regions with underdeveloped infrastructure or in those regions that lack infrastructure all together, and to develop low quality deposits in developed regions¹.

Table 21

**Production of crude oil and natural gas and oil refining
in Russia in 2010–2018**

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Extraction of crude oil including gas condensate, million tons	505.1	511.4	518.0	523.3	526.7	534.0	547.6	546.8	556.0
Extraction of natural gas, billion cubic meters	665.5	687.5	671.5	684.0	654.2	645.9	652.6	704.1	741.1
Primary crude oil refining, million tons	249.3	258.0	270.0	278.0	294.4	287.2	284.5	284.3	290.7
Share of crude oil refining in crude production, percent	49.4	50.4	52.1	53.1	55.9	53.8	52.0	51.9	52.3
Crude oil refining depth, percent	71.1	70.8	71.5	71.7	72.4	74.4	79.1	81.0	82.1

Sources: Rosstat, Ministry of energy of the Russian Federation.

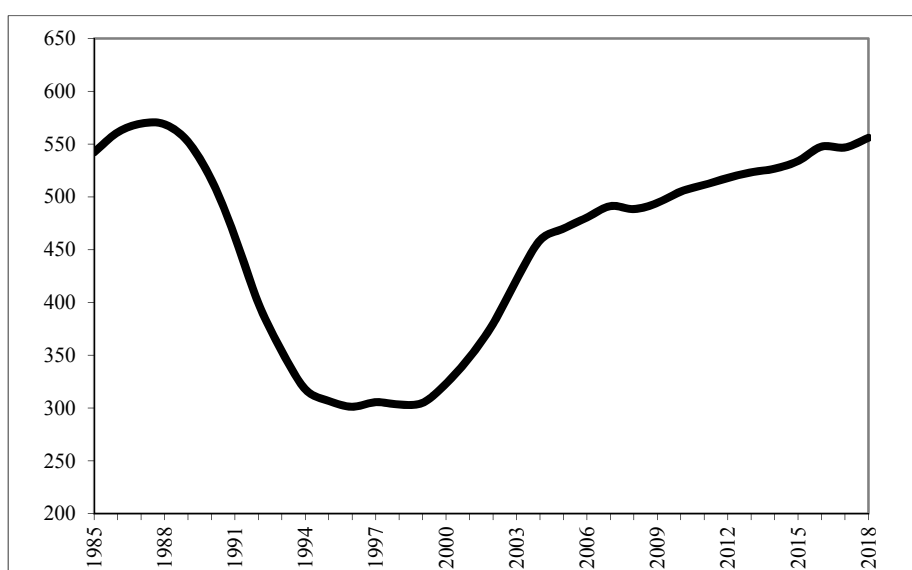


Fig. 24. Oil production, including gas condensate in 1985–2018, mn t

Sources: Rosstat, Ministry of energy of Russia.

Year 2018 demonstrates that the tax maneuver has delivered positive results from the first phase of the tax maneuver in the oil sector: a structural tax reform in this sector

¹ See Yu. Bobilev, O. Rasenko. Russia Oil Sector: main trends. Moscow, Delo Publishers, RANEPА, 2016.

envisages gradual reduction of export duties on both crude oil and petroleum products, as well as higher mineral extraction tax (MET)¹. According to the adopted for 2015–2018 parameters of tax maneuver effective marginal export duty rate was cut from 59 percent in 2014 to 30 percent in 2017. Meanwhile, export duty rate on fuel oil went up from 66 percent to 100 percent from crude oil export duty rate. Such restructuring of the tax system has created incentives for upgrading of oil refining capacities and has resulted in trend changes.

In 2000's and H1 2010's the Russian oil sector saw growing volumes of both oil refining and exports of petroleum products owing to the increase of production and exports of fuel oil (the least valuable refining product which in Europe is used for further refining and obtaining light petroleum products). Oil refining depth was not growing at that and constituted solely 71–72 percent (while, in the leading industrial countries it came to 90–95 percent). Then tax system actually conserved technological backwardness of Russia's oil refining sector and led to marked losses for the state budget (as a result of hidden subsidizing of the oil refining sector and other EAEU member states owing to lower compared to the world oil prices as well as lower export duties on petroleum products against the oil export duties).

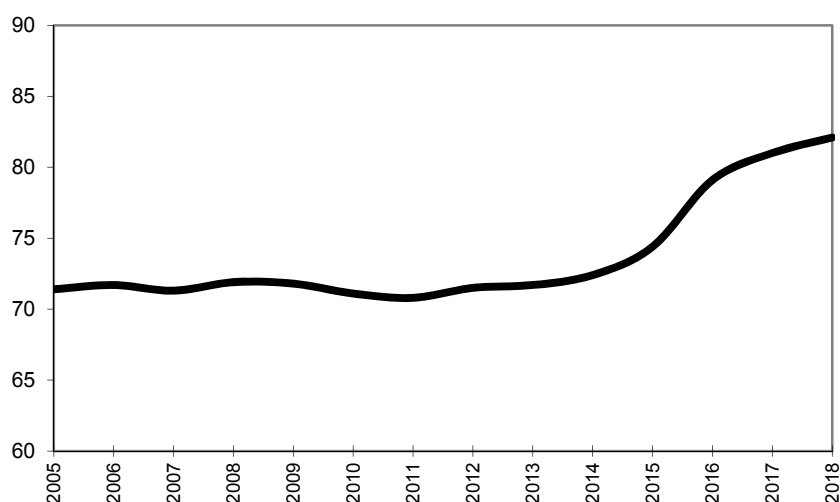
Implementation of the tax maneuver resulted in the turnaround of existing trends. Among the new trends emerged in 2015–2018, and some of them deserve to be mentioned here: firstly, oil refining depth increased notably as production of fuel oil declined, secondly, owing to the contraction of exports of fuel oil more lucrative crude oil exports moved up, thirdly, crude oil refining declined in volume terms due to the above two factors. Oil refining depth in Russia increased from 72.4 percent in 2014 to 82.1 percent in 2018 which is the all-time high (*Fig. 25*). Production of gasoline and diesel fuel went up while production of fuel oil declined by 37.2 percent. The share of refined oil in its production decreased from 55.9 percent to 52.3 percent. Petroleum products exports contracted by 8.9 percent.

Thus, thanks to the implementation of tax maneuver previously observed trends which demonstrated growth of refined oil volumes and growing exports of petroleum products due to increasing production and exports of fuel oil were replaced by trends which show contraction of production and export of fuel oil and as a result contraction of the oil refined volumes and petroleum products exports. Meanwhile, depth of the oil refining increased notably.

The structure of the oil sector is characterized by a predominance of major vertically-integrated companies and high share of state property. In 2018, five major companies (Rosneft, LUKOIL, Surgutneftegaz, Gazprom, and Tatneft) accounted for 80 percent of crude oil extraction. Recently, the market share of Rosneft grew markedly. In 2013, Rosneft took over TNK-BP and in 2016 acquired controlling stake in Bashneft. The share of Rosneft in the overall crude oil production moved up from 22.3 percent in 2010 to 38.3 percent in 2017–2018 (*Table 22*). Small and medium-size oil producing

¹ See Yu. Bobylev. Tax Maneuver in Oil Industry. Russian Economic Developments. 2015. No. 8, pp. 45–49.

companies remains underdeveloped. Oil companies producing up to 2.5 million tons per year (up to 50 thousand barrels per day) account for merely 3 percent of the total production. Meanwhile, the US experience shows that such companies are efficient in developing marginal oilfields and tight oil which sizes in Russia are rather significant.



Puc. 25. Refining depth in 2005–2018, percent

Sources: Ministry of energy of Russia, Rosstat.

Table 22

Crude oil production structure in 2016–2018

	Oil output in 2016, million t	Share in total output, percent	Oil output in 2017, million t	Share in total output, percent	Oil output in 2018, million t	Share in total output, percent
Rosneft, including Bashneft	211.1	38.6	209.3	38.3	213.1	38.3
LUKoil	83.0	15.2	81.7	14.9	82.1	14.8
Surgutneftegaz	61.8	11.3	60.5	11.1	60.9	11.0
Gazprom, including Gazpromneft	55.2	10.1	56.9	10.4	56.9	10.2
Including Gazprom	17.4	3.2	17.4	3.2	17.4	3.1
Tatneft	37.8	6.9	39.5	7.2	39.5	7.1
Bashneft	28.7	5.2	28.9	5.3	29.5	5.3
Slavneft	15.0	2.7	14.3	2.6	13.8	2.5
RussNeft	7.0	1.3	7.0	1.3	7.1	1.3
NOVATEK	8.0	1.5	7.7	1.4	8.3	1.5
PSA operators	16.0	2.9	16.5	3.0	18.7	3.4
Other producers	61.7	11.3	64.0	11.7	65.5	11.8

Sources: Ministry of Energy of RF, own calculations.

4.4.3. Dynamics and structure of oil and gas exports

In 2018, total Russia's exports of crude oil and petroleum products constituted 410.3 million tons, up 2.3 percent against the previous year. This indicator is close to an all-time high reached in 2015. The share of net exports of crude oil and petroleum products in 2018 constituted 73.8 percent (*Table 23*). It should be noted that 2015–2018 saw a notable growth of 16.5 percent of crude oil exports spurred by the “tax maneuver”

and a 8.9 percent decline in exports of petroleum products mainly owing to a fall of the fuel oil exports (*Table 24, 25*). The share of crude oil in total oil exports constituted 63 percent, and that of petroleum products – 37 percent. As a result, the share of crude oil in total oil exports up from 57.5 percent in 2014 to 63.4 percent in 2018, and the share of petroleum products down from 42.5 percent to 36.6 percent. Meanwhile, exports of diesel fuel markedly up 15.6 percent. The share of exports in diesel fuel production in 2018 made up 72.5 percent, and in gasoline production – 10.9 percent.

Table 23

**Ratio of production, consumption and exports of crude oil
and natural gas in 2010–2018**

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Crude oil, mn t									
Production	505.1	511.4	518.0	523.3	526.7	534.0	547.6	546.8	556.0
Exports, total	250.4	244.6	239.9	236.6	223.4	244.5	254.8	252.6	260.2
Exports to - non-CIS countries	223.9	214.4	211.6	208.0	199.3	221.6	236.2	234.5	241.7
Exports to CIS countries	26.5	30.2	28.4	28.7	24.1	22.9	18.6	18.1	18.5
Net exports	249.3	243.5	239.1	235.8	222.6	241.6	254.0	252.0	259.7
Domestic consumption	125.9	140.7	142.1	137.5	141.3	122.2	138.3	147.1	146.7
Net exports as percent of production	49.4	47.6	46.2	45.1	42.3	45.2	46.4	46.1	46.7
Petroleum products, mn t									
Exports, total	132.2	130.6	138.1	151.4	164.8	171.5	156.0	148.4	150.1
Exports to non-CIS countries	126.6	120.0	121.2	141.1	155.2	163.3	148.1	137.4	139.0
Exports to CIS countries	5.6	10.6	16.9	10.3	9.6	8.3	8.0	11.0	11.0
Net exports	129.9	127.2	136.8	150.0	162.8	170.2	155.3	147.7	149.6
Crude oil and petroleum products, mn t									
Net exports of crude oil and petroleum products, mn t	379.2	370.7	375.9	385.8	385.4	411.8	409.3	399.7	409.3
Net exports of crude oil and petroleum products as percent of crude oil production	75.1	72.5	72.6	73.7	73.2	77.1	74.7	73.1	73.6
Natural gas, billion cubic meters									
Production	665.5	687.5	671.5	684.0	654.2	645.9	652.6	704.1	741.1
Exports, total	177.8	184.9	178.7	196.4	172.6	185.5	198.7	210.2	220.6
Exports to - non-CIS countries	107.4	117.0	112.6	138.0	124.6	144.7	164.7	175.9	184.0
Exports to CIS countries	70.4	67.9	66.0	58.4	48.0	40.7	34.0	34.3	36.6
Net exports	173.5	179.2	171.6	189.3	165.5	178.4	189.8	201.4	211.2
Domestic consumption	492.0	508.3	499.9	494.7	488.7	467.5	462.8	502.7	529.9
Net exports in percent to production	26.1	26.1	25.6	27.7	25.3	27.6	29.1	28.6	28.5

Sources: Rosstat, Russian Ministry of Energy, Federal Customs Service, own calculations.

Analysis of Russia's crude oil exports over the course of a long period demonstrates a marked increase in the export-led component of oil industry. The share of net exports of crude oil and petroleum products in crude oil production went up from 47.7 percent in 1990 to 73.6 percent 2018. This, however, is due not only to the increase in absolute volumes of exports but to a crucial contraction of internal oil consumption against the Soviet period and more efficient oil consumption and the replacement of petroleum products (fuel oil) by natural gas¹.

¹ Bobilev Yu. Development of Russia's oil sector // *Voprosy ekonomiki*. 2015, No. 6, pp. 45–62; Bobilev Yu. The Development of the Russian Oil Sector // *Problems of Economic Transition*. Vol. 58. 2016. Issue 11–12: The Real Sector Potential. pp. 965–987.

Exports of natural gas in 2018 went up 4.9 percent in comparison with the previous year and hit 220.6 billion cubic meters, which is an all-time maximum. The share of net exports in the natural gas production in 2018 constituted 28.5 percent.

Owing to the plunge of global prices on crude oil and natural gas, the share of oil and gas sector products in Russian exports declined markedly in 2015-2017 notably – from 65.2 percent in 2015 (including oil and petroleum products – to 42.2 percent). Due to the increase of the world prices in 2018 and the growth of the physical volumes of oil and gas exports it moved up to 56.7 percent (including oil and petroleum products – to 45.8 percent). In spite of the price plunge oil and gas sector products constitute above one-half of Russia's exports (*Table 24*).

Table 24

Value and share of exports of oil and gas sector products in Russia's exports in 2017–2018

	Exports in 2017, billion US dollars.	In percent to total volume of Russia's exports	Exports in 2018, billion US dollars.	In percent to total volume of Russia's exports
Oil and gas sector, total	189.70	52.8	256.2	56.7
Crude oil and petroleum products	151.55	42.2	207.1	45.8
Crude oil	93.31	26.0	129.0	28.5
Petroleum products	58.24	16.2	78.1	17.3
Natural gas	38.15	10.6	49.1	10.9

Sources: Federal Customs Service, own calculations.

4.4.4. Dynamics of domestic prices on energy products

The pricing mechanism for crude oil and petroleum products in the Russian domestic market is based on equal-netback pricing, that is, prices are equal to the world price less export duty and transportation costs. The domestic price in dollar terms declined in the second half of 2014-2016, owing to tumbling global prices on crude oil and petroleum products (*Table 25, Fig. 26*). In the meantime, there is still a wide gap between world and domestic oil prices due to the export duty. Along with this, a convergence of international and domestic prices is observed owing to a lower rate of export duty envisaged as part of the tax maneuver. In 2014, the domestic oil price (producers' price) constituted 42 percent of the global price (Urals crude price on the European market), while in 2018 – 66 percent.

Table 25

Domestic prices on crude oil, petroleum products and natural gas in USD terms in 2010–2018 (average producers' prices at year-end, USD/ton)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Crude oil	248.2	303.3	341.1	346.1	178.9	156.7	207.8	302.4	320.8
Motor gasoline	547.9	576.9	628.7	614.4	372.3	301.8	380.3	460.0	423.3
Diesel fuel	536.1	644.9	774.2	698.0	419.3	349.4	421.3	515.2	550.7
Fuel oil	246.3	274.6	275.3	235.8	128.7	49.5	129.7	166.1	186.0
Gas, USD/thousand cubic m	20.5	21.3	40.3	39.8	29.1	24.5	23.6	34.2	28.9

Source: own calculations based on data released by Rosstat.

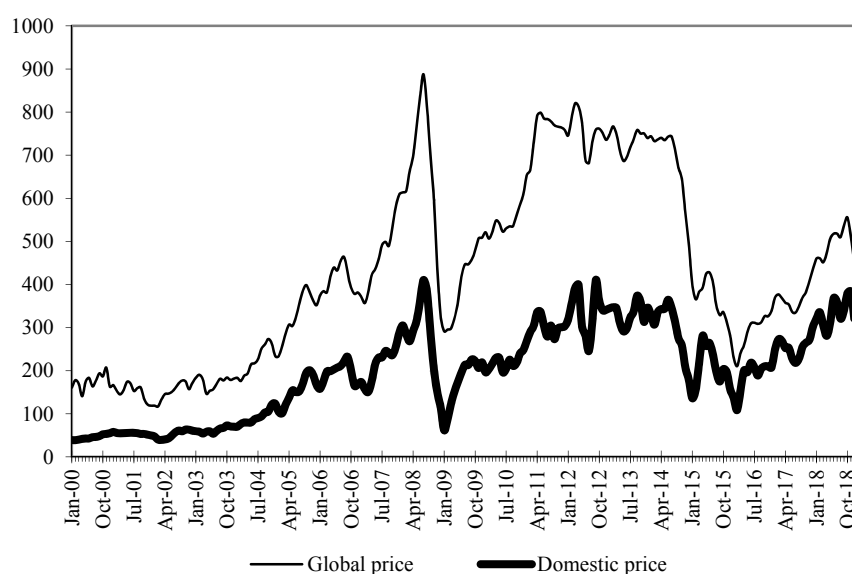


Fig. 26. Global and domestic oil prices in 2000–2018, USD/t

Sources: Rosstat, own calculations.

Upward movement of oil prices in 2017–2018 determined growth of consumer prices on motor fuel (*Table 26*) which set the pricing policy on net-back prices taking into account indirect taxes (excises, VAT) and markup. Russia regarding the share of indirect tax burden in the final motor gasoline price ranks in the middle between leading EU countries where this share is the highest and the USA where it is relatively low.¹ With lower non-tax gasoline prices and such level of tax burden the consumer prices on motor gasoline in Russia are approaching the US prices, but remain significantly lower than in other developed countries. According to our calculations in late 2018 consumer motor gasoline price in Russia came to the level of the USA 96 percent, Canada 74 percent, Japan 45 percent and regarding the average level of leading EU-5 – 41 percent (*Table 26*). Thus, effective system of export duties and the level of tax burden on petroleum products in Russia ensures lower price level on motor fuel on domestic market in comparison with the developed countries.

Table 26

Consumer prices on motor gasoline in Russia 2014–2018, RUB/liter

	2014 January	2015 January	2016 January	2017 January	2017 December	2018 January	2018 December
Regular unleaded gasoline	29.53	32.35	33.86	35.57	37.95	38.12	41.58
Premium 95 octane and plus	32.64	35.16	36.81	38.69	41.01	41.05	44.83

Source: Rosstat.

¹ See Yu. Bobylev. Gasoline prices in Russia and other countries: comparative analysis. Russian Economic Developments. 2016, No. 10, pp. 28–31.

Table 27

Level of consumer price on motor gasoline in Russia against other countries, percent

	2014 January	2018 December
USA	95.8	95.8
Canada	72.9	73.7
Japan	55.0	45.2
Germany	44.4	39.6
Great Britain	43.3	41.8
France	45.3	39.7
Italy	39.5	37.2
Spain	48.7	46.6
EU-5	44.1	40.8

Source: own calculations of data released by OECD/IEA and Rosstat.

Domestic prices on natural gas are under the state regulation. In order to ensure competitiveness of the national economy, the government maintains significantly lower level of domestic prices on gas compared to the world gas prices. Meanwhile, owing to a regulated increase of the domestic gas prices and a significant decrease of the world prices on natural gas there is a gradual convergence of domestic and world gas prices. In 2018, domestic gas price (corporate consumers' price less indirect taxes) averaged 32 percent of the price of Russian gas.

4.4.5. Prospects for development of the Russian oil industry

Russia disposes of vast oil reserves, which are enough to maintain high levels of crude oil extraction and exports for many years to come. There is a high potential for crude oil extraction owing to both undeveloped deposits in undeveloped areas and oilfields in new producing areas. At the same time, there is a rather significant potential for additional extraction on already producing oilfields thanks to an in-depth development. Russia's oil refining rate is markedly below the average world level. Moreover, Russia disposes of extensive currently undeveloped unconventional oil reserves including shale oil. Upgrade of the oil refining depth allows satisfying domestic demand in motor gasoline with relatively lower volumes of oil consumption.

In future, global demand for oil will grow, which will allow Russia to retain and even to increase current volumes of crude oil exports, first of all, by increasing shipments to China and other countries of Asia. In the context of low crude oil prices, options for the development of new oilfields and unconventional reserves will be significantly restricted in Russia because investment in the cost demanding projects will be unprofitable. In this context enforced technological sanctions against Russia, which ban exports to Russia of equipment and technologies for the development of deposits located on the Arctic shelf, deep-water oil fields and shale oil deposits will negatively affect the oil industry development.

In the circumstances, conventional oil reserves located onshore will be the basis for further development of the Russian oil sector. In-depth development of producing oilfields and increase of the oil recovery rate are of major importance. Options for

additional oil production at such oil fields will largely depend on technological progress, development of import substitution aimed at increasing the oil recovery index.

Measures adopted within the state tax policy should contribute to the development of the oil sector – gradual completion of the tax maneuver in the oil sector and the introduction of Additional Extraction Tax (windfall tax).

The Federal Law of August 3, 2018 No. 305-FZ “On Introduction of Amendments in the Article 3.1 of the Law of the Russian Federation ‘On the Customs Tariff’” envisages gradual reduction of the oil export duty rate from 2019 through 2024 to the zero level. Simultaneously, the Federal Law of August 3, 2018 No. 301-FZ “On Introduction of Amendments into the Second Part of the Tax Code of the Russian Federation“ envisages offsetting increase over the same period of Mineral Extraction Tax (MET) rates in oil production. Such tax system restructuring is creating incentives for further modernization of the oil refining sector, reduces subsidizing of domestic consumers, first of all, in the refining sector, cuts subsidizing by Russia of other EAEU countries, and strengthens incentives for increasing energy efficiency.

The Federal Law of July 19, 2018 No. 199-FZ “On Introduction of Amendments in Part One and Two of the Tax Code of the Russian Federation” from early 2019 changed the tax system by introducing a new special tax – windfall tax on extraction of hydrocarbon raw materials. Implementation of this tax will promote investments in oil production, including development of oilfields with higher production costs¹. Initially, application of windfall tax is envisaged on a limited number of oilfields, and it is envisaged to widen the scope of application of this tax in the future.

4.5. Agriculture in 2018: decline or growth?²

4.5.1. Estimates based on initial and adjusted data

Over recent years, agriculture – if we choose to look at available data prior to their adjustment based on the results of the All-Russia Agricultural Census – has been growing at a sufficiently high rate: in 2013 – by 5.8 percent, in 2014 – by 3.5, in 2015 – by 2.6, in 2016 – by 4.8, and in 2017 – by 2.5 percent³. Overall, growth over the course of 5 years amounted to 20.7 percent. Based on Rosstat’s current statistics, managers on both the federal and regional levels describe the development pattern of the

¹ Bobylev Yu., Rasenko O. On the introduction of tax on additional revenues in the oil sector // Russian Economic Developments. 2017. No. 10, pp. 65–68.

² This section was written by E. Gataulina, RANEPА; V. Uzun, RANEPА; N. Shagaida, Gaidar Institute, RANEPА; E. Shishkina, RANEPА.

³ The Federal State Statistics Service (Rosstat) altered its published data several times. At different dates, it published data that were: (1) preliminary, (2) verified, (3) based on the first adjustment made with due regard for the results of the All-Russia Agricultural Census 2016. It has been announced that the results of the second and final adjustment will be released in May 2019. Thus, data may vary throughout the text of this overview. For the sake of accuracy, it is necessary to pay attention to the date of the data release. The data cited here were released as of October 1, 2018. After the first data adjustment, as of January 31, 2019, Rosstat released another figure: 3.1 percent.

agroindustrial complex (AIC) as a breakthrough and a leap forward¹. We likewise mentioned this fact in our overviews released over several previous years². However, in 2018, there were some problems involved in the estimation of the growth rate both for 2018 and for the previous years.

Rosstat made some serious adjustments to these statistics based on the results of the All-Russia Agricultural Census 2016 (hereinafter – ARAC 2016). The previously released agricultural production data were revised and downwardly adjusted. The most dramatic alterations had to do with the data on those agricultural products that are predominantly produced by individual households: potatoes; vegetables; melons and gourds; fruits and berries; and milk. At the same time, data on cereals output remained practically the same before and after their adjustment. The gross yield value of agricultural products also shrank: from RUB 5,654 billion to RUB 5,120, or by RUB 534 billion (*Table 28*). Meanwhile, as seen from the information sources, adjustment were made only to some statistical forms. In this connection, when analyzing the changes that occurred in 2018, one may be faced with a situation where some statistical forms are characterized by positive production growth rates, while the other forms display negative growth rates.

Table 28

Data adjustment for 2017, based on the results of ARAC 2016

	Production in 2017, thousands of tons		Preliminary data adjustment	
	before adjustment*	after adjustment**	billions of rubles/thousands of tons	percent relative to adjusted data
Gross production value volume in agriculture, billions of rubles	5,654	5,120	-534	-10.4
Grain	135,393	135,539	146	0.1
Meat and meat products	10,384	10,319	-65	-0.6
Milk and dairy products	31,184	30,185	-999	-3.3
Eggs and egg products (million)	44,891	44,829	-62	-0.1
Potatoes	29,590	21,708	-7,882	-36.3
Vegetables, melons and gourds	18,089	15,427	-2,662	-17.3
Fruits and berries (including grapes)	3,480	3,262	-218	-6.7

*data prior to adjustment, as of May 31, 2018. URL: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/economy/

**Adjusted data: for gross production – as of January 31 2019. URL: http://www.gks.ru/free_doc/new_site/business/sx/prod_sx_rf.xls data for specific products – as of December 19, 2018. URL: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/economy/#

¹URL: https://finance.rambler.ru/economics/40999322/?utm_content=rfinance&utm_medium=read_more&utm_source=copylink. Bryansk AIC made a true breakthrough.

URL: [http://xn--32-6kc4bi9i.xn--p1ai/economy/agroculture/2017/11/24/bryanskij-apk-sovershil-nastoyashhij-proryv/The agroindustrial complex of Penza Oblast achieved a colossal breakthrough](http://xn--32-6kc4bi9i.xn--p1ai/economy/agroculture/2017/11/24/bryanskij-apk-sovershil-nastoyashhij-proryv/The%20agroindustrial%20complex%20of%20Penza%20Oblast%20achieved%20a%20colossal%20breakthrough).

URL: <http://pnzreg.ru/news/selskoe-khozyaystvo/56749/>. The AIC of Chelyabinsk Oblast made a big leap.

URL: <http://svetich.info/publikacii/aktualnoe-intervyu/sergei-sushkov-nasha-zadacha-prodolzhit-.html>

² N. I. Shagaida, V. Ya. Uzun. Growth factors in the agriculture of Russia. Russian Economy in 2016. Trends and Outlooks. Gaidar Institute for Economic Policy. Moscow, 2017; Shagaida N. I., Gataulina E. A., Yanbykh R. G., Uzun V. Ya. The year-end results of 2017 and new developments in Russia's agrarian policy. Russian Economy in 2017. Trends and Outlooks. Gaidar Institute for Economic Policy. Moscow, 2018.

An increase could be observed not only with regard to data on individual households (horticulturists - owners of vegetable gardens and orchards, or owners of country houses ('dachas'), etc.), but also those reported by agricultural organizations (AO) and peasant (farm) holdings (PFH).

Keeping records on individual household production is a difficult task for statisticians. This category of agricultural producers is by no means easily observable. They are not required to report to statistical agencies, and their production is estimated on the basis of sample data, the resulting estimates then being spread across more than 30 million individual households. Any errors, however slight, in the methodology and organization of those sample studies could result in some significant distortions in the overall picture. It is evident that the marked shifts demonstrated by the reported data after their adjustment can be explained by exactly that reason – limitations of the existing methodology and less than perfect organization of the sample studies.

It is much more difficult to explain the overstated data for AOs and PFHs, because these entities are required to submit to Rosstat, at regular intervals, reports with information concerning all aspects of their activity. True, some of them do not report, but then the actual data in current statistical records may be underestimated, and not inflated. Besides, an overwhelming majority of AOs and PFHs report to the RF Ministry of Agriculture, when they participate in government support programs targeting agricultural producers. The RF Ministry of Agriculture, through its regional agencies, and these, in their turn, through their district administrations, receive multipage annual reports containing hundreds or thousands of indices on various parameters of agriculture from each agricultural organization. Farmers submit two annual reporting forms. These forms are made use of by the RF Ministry of Agriculture, and are also available for the statistical agencies.

So the question arises – why the routine statistical follow-up yields inflated indices?¹ It should be noted that such a situation has emerged for the second time already in the history of Russian statistics, because two All-Russia agricultural censuses have taken place, in 2006 and in 2016. However, the data adjustment after the second census in 2016 was much more substantial than in 2006 - it affected all types of agricultural producers, while in the first case the adjustment was made mostly with regard to individual households and individuals.

¹As early as 2006, while analyzing the data obtained during the first agricultural census, Rosstat found that the current production volume statistics were higher than the same indices obtained during the census. The gross production index for 2007 was found to be higher by RUB 168 billion (8.7 percent). But then the error nearly entirely (to the value of RUB 167 billion, or 19.5 percent relative to the pre-census level) could be accounted for by the data on individual households. The adjustments for AOs and PFHs were negligible. The adjusted gross value added index for agriculture, hunting, and forestry demonstrated an even greater deviation: in 2007, before adjustment, it amounted to RUB 1,350 billion (Statistics Yearbook 2009), and after adjustment – to RUB 1,195 billion (Statistics Yearbook 2010), which represents a drop by 13 percent. The relative share of agriculture in GDP shrank from 4.1 percent to 3.5 percent. Russia's total GDP, when adjusted, remained practically unchanged.

Alterations in statistics based on the results of agricultural censuses give rise to many methodological problems whenever it is necessary to assess the rate of growth in agriculture in general, or by type of agricultural product.

A) *The methodological problems associated with the growth rate estimates for the past years.* For example, according to the initial data released by the Unified Interdepartmental Information and Statistics System (EMISS), the gross production index in agriculture in 2016 amounted to RUB 5,506 billion in current prices (or RUB 5,516 billion in comparable prices for 2017). In 2017, production growth in agriculture amounted to 2.5 percent. After the data for 2017 had been adjusted, the production volume in the new statistics for 2017 (RUB 5,120 billion) turned out to be far below that in 2016. The solution for that problem was already found after the first census: then, Rosstat downsized the production volume index in agriculture not only for 2007, but also for the previous 11 years (from 1996 through 2006). The adjusted production volumes were much lower than their previous level. By way of example, *Table 29* shows the relevant data before and after adjustment resulting from the first agricultural census.

Table 29

Agricultural production: data before and after adjustment, based on the results of the Agricultural Census 2006

	Gross agricultural production in current prices, billions of rubles			Gross yield of potatoes, millions of tons		
	Before adjustment*	After adjustment	percent relative to adjusted data	Before adjustment*	After adjustment	percent relative to adjusted data
1995	203.9	203.9	0.0	39.9	39.9	0.0
1996	286.9	283.4	1.2	38.7	37.6	2.9
1997	309.2	303.2	2.0	37.0	35.1	5.3
1998	307.6	298.4	3.1	31.4	29.0	8.5
1999	607.1	586	3.6	31.3	28.0	11.8
2000	774.1	742.4	4.3	34.0	29.5	15.4
2001	960.6	918.2	4.6	35.0	29.5	18.6
2002	1,028.3	968.2	6.2	32.9	26.9	22.2
2003	1,154.9	1,076.4	7.3	36.7	29.4	25.0
2004	1,345.2	1,253.2	7.3	35.9	27.9	28.8
2005	1,494.6	1,380.9	8.2	37.3	28.1	32.6
2006	1,711.3	1,570.6	9.0	38.6	28.3	36.6
2007	2,099.6	1,931.6	8.7	36.8	27.2	35.3

*Data from Statistics Yearbooks for 2009 and the previous years.

After the first adjustment (or assessment, as Rosstat has called it), a second adjustment (assessment) will be done, and it will result in alterations in the corresponding indices for several previous years, from 2007 onwards. Although Rosstat has downsized the value volume of gross production in agriculture for 2017 from RUB 5,654 billion до RUB 5,119.9 billion, the growth rate of that index demonstrated not only complete absence of any shrinkage, but even a certain increase relative to 2016 (from 102.4¹ to 103.1 percent²). This means that the value volume of gross production in agriculture for 2016 was downsized even more than that for 2017.

¹ As of May 31, 2018.

² As of January 31, 2019.

B) The methodological problems involved in estimating the rate of growth in the first year after the adjustment. In 2008, the procedure was accomplished painlessly, because that year was good for agriculture, and so there was a surge in production compared with the adjusted data (by 10.8 percent), accompanied by a relatively modest albeit real increase compared with the initial data (by 2.1 percent). The situation in 2018 proved to be much more complicated. After the record-high result of 2017, the main types of crop production in 2018 demonstrated a marked decline. This situation is, in fact, quite typical: ‘record-high’ years are very frequently followed by a year of unfavorable conditions. Russian weather conditions in 2018 were also conducive to a decline in crop yields. ‘At the end of July, Head of the Ministry of Agriculture Dmitry Patrushev said that, due to the unfavorable weather conditions, a state of emergency had already been introduced in 17 regions across the country’¹.

But for the data adjustment after the census, the answer to the question as to whether, in 2018, a production decline really took place in agriculture, would have been unequivocal – there was indeed a decline, and it was significant. This is confirmed by the indices shown in *Table 30*. The main types of crop production, except sunflower seed, demonstrated a very significant decline in 2018 relative to 2017. The production index for 2018 in animal husbandry (with the exception of milk output), demonstrated growth, albeit at a low rate. Since the rate of decline in crop production is much higher than the rate of growth in animal husbandry, and the crop production component still prevails in the value volume index of total gross production in agriculture, the overall decline in agriculture has become quite obvious (by 9.4 percent).

Table 30

Production in agriculture (millions of tons)

	2017 (before adjustment, as of May 31, 2018)	2018 (preliminary data as of January 31, 2019)	2018/2017, percent
Gross production in agriculture, billions of rubles, in actual prices	5,654	5,119.8	90.6
Output of threshed primary grains and legumes (including corn)	135.4	112.9	83.4
Sugar beet	51.9	41.2	79.3
Sunflower seed	10.5	12.6	120.2
Potatoes	29.6	22.4	75.8
Vegetables, protected and open-field cultivation	16.4	13.6	83.0
Total meat production (live weight at slaughter)	14.6	14.9	101.7
Milk	31.1	30.6	98.5
Eggs, billions	44.8	44.9	100.2

Source: for crop production data, see http://www.gks.ru/free_doc/new_site/business/sx/val_1.xls; for gross production in agriculture and animal husbandry production, see http://www.gks.ru/bgd/regl/b18_02/IssWWW.exe/Stg/d010/1-04.doc

However, as seen from *Table 28*, the production volume indices for 2017 were adjusted after ARAC-2016. Evidently, by applying the adjusted data, the RF Ministry of Agriculture reported that it expected the gross production index in agriculture to

¹ URL: <https://rg.ru/2018/08/08/kak-anomalnaia-pogoda-povliiaet-na-urozhaj-v-rossii-i-v-mire.html>

increase by 1 percent in 2018¹. But this growth is to result not from increased production, but from the downsized production indices for the previous year²: for milk – by 1 million *t*; for potatoes – by 7.8 million *t*; for vegetables, melons and gourds – by 2.7 million *t*; and for fruits and berries – by 0.3 million *t*. A more detailed analysis of these data will become possible after the release, in 2019, of the final adjusted gross production data by product type.

So, how can the rate of development in Russia's agriculture be estimated in view of the existing adjustment system? Which data should be relied upon? If the growth rates are compared on the basis of the initial data, the result will be overestimated. If the adjusted data are applied in calculating the growth rate in the agricultural sector, the result will also be erroneous, because a high rate will persist due to the downsized indices for the previous years. Below, we discuss some alternative methodological approaches to estimating the rate of growth in agriculture:

1. To select for the comparison a period the data for which are not doubtful and are not subject to any adjustment. Such a period in the post-reform era could be either the year 1990, or the five-year period 1986–1990 (*Fig. 27*).

Based on the initial data, it has already been concluded that the gross production index in agriculture in 2017 matched its level of 1990. No such conclusion can be derived from the adjusted data;

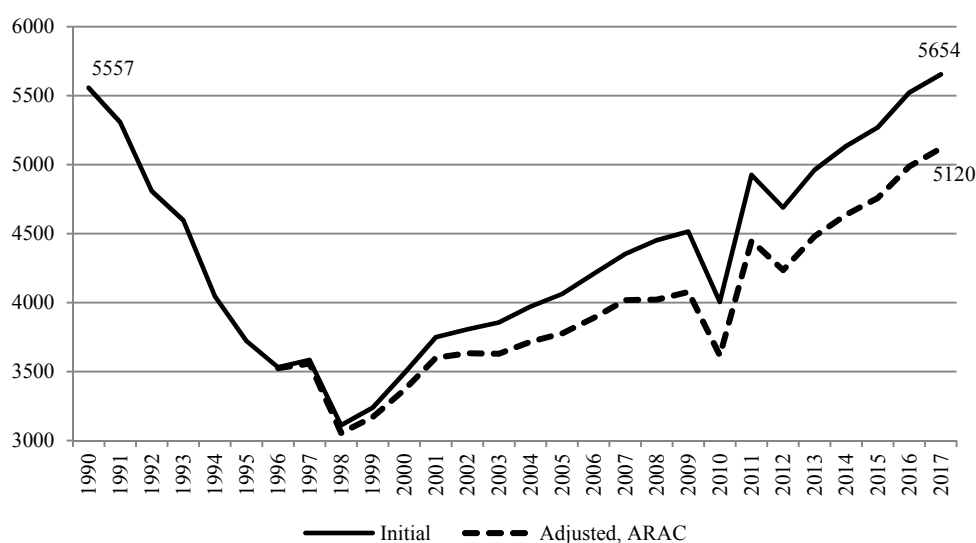
2. To compare the agriculture indices with those for the entire economy. In this connection, it is assumed that the growth rate of national GDP has been determined correctly (as demonstrated earlier, GDP is revised only slightly). On the basis of changes in the relative share in GDP of gross value added (GVA) in agriculture, the growth rate in agriculture can be calculated³;

3. To compare the movement patterns of the by-product output growth rates and GVA in Russia's agriculture with the corresponding world indices. By doing so, it will be possible to more accurately estimate the national records and breakthroughs, setting them against the similar results achieved in other countries. For example, in the National Report on the Implementation of the Government Program of Agriculture Development in 2017 it is stated that the record of gross yield of grain, set in 1978, has been broken. However, if the grain record is to be viewed against the backdrop of world development, quite a different picture will emerge. In 1978, Russia produced 127 million *t* of grain, and in 2017 – 135 million *t*.

¹ 'However, as I have already pointed out, we will see an increase of 1 percent for the whole year. It will not be like last year's, but there will still be growth', said RF Minister of Agriculture Dmitry Patrushev at the meeting with the RF President on December 3, 2018. See <http://svetich.info/news/federalnyenovosti/genby.html>, December 3, 2018.

² In view of the announced 'breakthrough policy', this 'calculation trick' will probably become widespread: if no real breakthrough growth can be achieved, the required growth rate index will be produced by downsizing the base indices.

³ It should be noted in this connection that the conclusion, arrived at by many researchers on the basis of non-adjusted data, that the relative share of agriculture in GDP was increasing proved to be unsubstantiated after the relevant data were adjusted.



Note. The adjusted data for 2008–2017 were calculated by downsizing the initial data: data for 2017 – by 10.6 percent, and data for each previous year – by 1.06 percentage points.

Fig. 27. The movement of the gross production index in agriculture based on initial and adjusted data, billions of rubles

Source: Rosstat’s initial data, see http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1135087342078; http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1140096652250. For adjusted data, see http://www.gks.ru/free_doc/new_site/business/sx/tab-sel1.htm

Over the period under consideration, Russia’s gross yield of grain gained 6 percent, and the corresponding world index gained 112 percent (increasing from 1,341 million *t* in 1978 to 2,849 million *t*¹ in 2016). Russia’s share in world grain production over these years shrank from 9.5 to 4.7 percent. If Russia’s grain yield had been increased at the same rate as the world index, her gross yield would have increased to 255 million *t*. Evidently, it is feasible to use this index as a benchmark while estimating the achievements of Russia’s agriculture.

So, it should be said that, for 2018, it is difficult to estimate the changes in output and production growth rates due to the comprehensive data revision, both in retrospect – from the year of the All-Russia Agricultural Census 2016 – and thereafter, for the year 2017. However, if we apply more complex methodologies, we will see that there was indeed some growth, but it was definitely not spectacular. The same can be done with Rosstat’s adjusted data: the growth observed in 2018 is produced by the significantly downsized indices – both those for 2017 and those for the previous 10 years.

¹ The World Bank’s database. See <https://data.worldbank.org/indicator/AG.PRD.CREL.MT>

4.5.2. Prices and consumption

The shortfall in the yield of grain crops in 2018 had no negative consequences. Considering the accumulated grain reserves, Russia's grain resources in 2018 remained at a high level (*Fig. 28*).

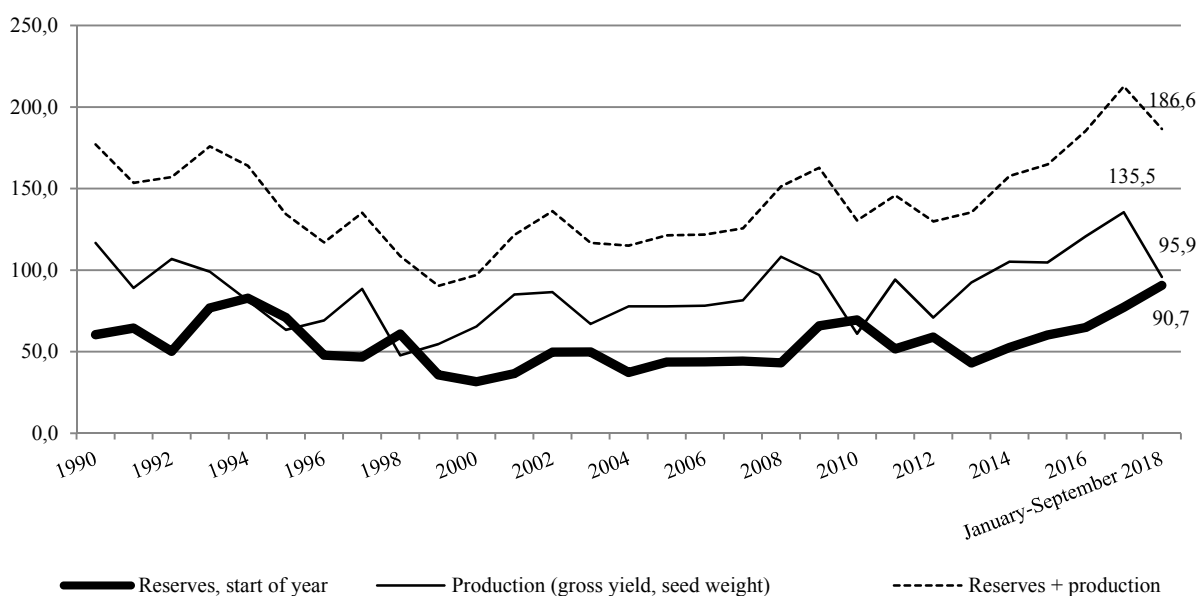


Fig. 28. Grain production and grain reserves in Russia (balance)

Source: Rosstat .

Two good harvest years in a row (2016 and 2017) resulted in a sharp decline of grain prices. At the onset of harvest in 2018, the prices were below their level of 2015–2017 both in ruble and US dollar terms. In June, they rose above the 2017 level, and demonstrated stable growth until December 2018 in ruble and US dollar terms (*Fig. 29*). At the same time, there was no grain shortage, and grain prices remained stubbornly high due to favorable export opportunities.

The shrinkage of sugar beet yield had no negative consequences, either, because over the previous two years the yield index was at the level of 51–52 million *t*, which in terms of annual average was 1.3 times higher than in 2015 (and 2–3 times higher than over the period 1995–2010). The good yields obtained in the previous years and competition with cane sugar suppliers on the international market pushed down domestic prices for beet sugar, while the export volume of sugar from Russia was very small (*Fig. 30*).

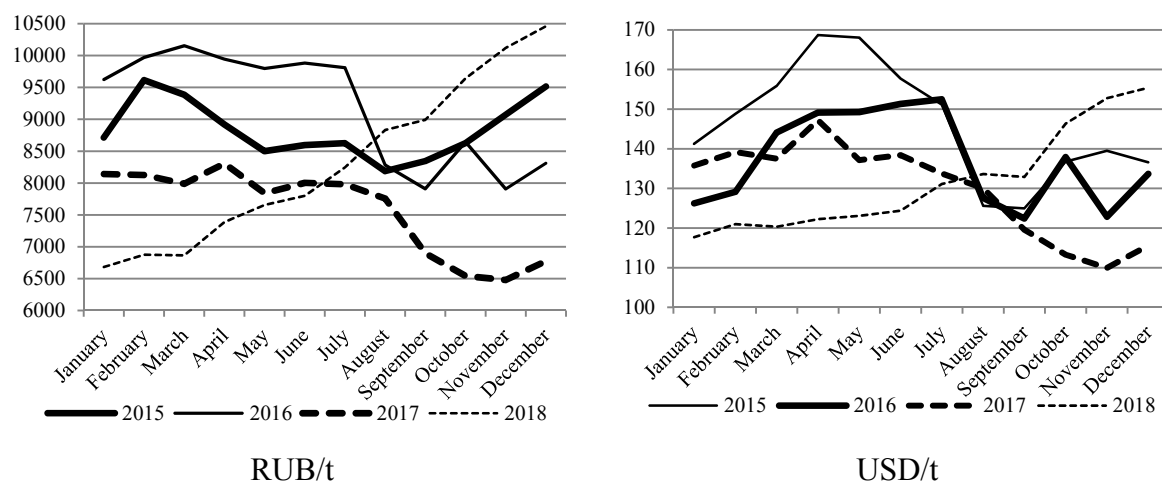


Fig. 29. Selling prices of wheat set by agricultural producers

Source: Rosstat.

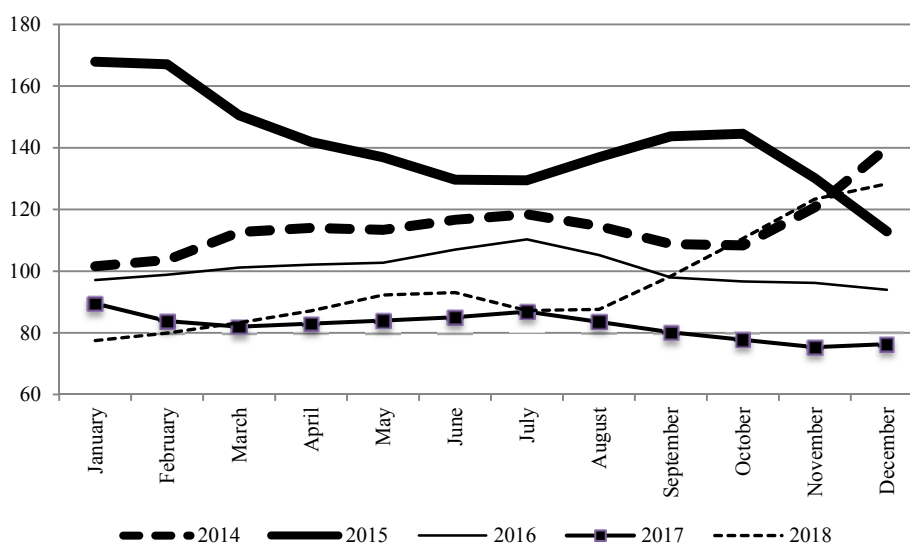


Fig. 30. Retail price index for sugar, as percentage relative to the corresponding month of previous year

Source: EMISS.

The food consumption index, calculated on the basis of retail sales of foodstuffs (household consumption data for 2018 will be released only in late October 2019), began to slowly regain its previous level in June 2017. Fig. 31 demonstrates the movement patterns of retail sales of foodstuffs in constant prices relative to each corresponding month of 2012. However, in December 2018, the volume of retail sales of foodstuffs was below that of 2015, 2014 and 2013. When set against its 2012 level, the retail sales index in December 2018 lost 10 percent.

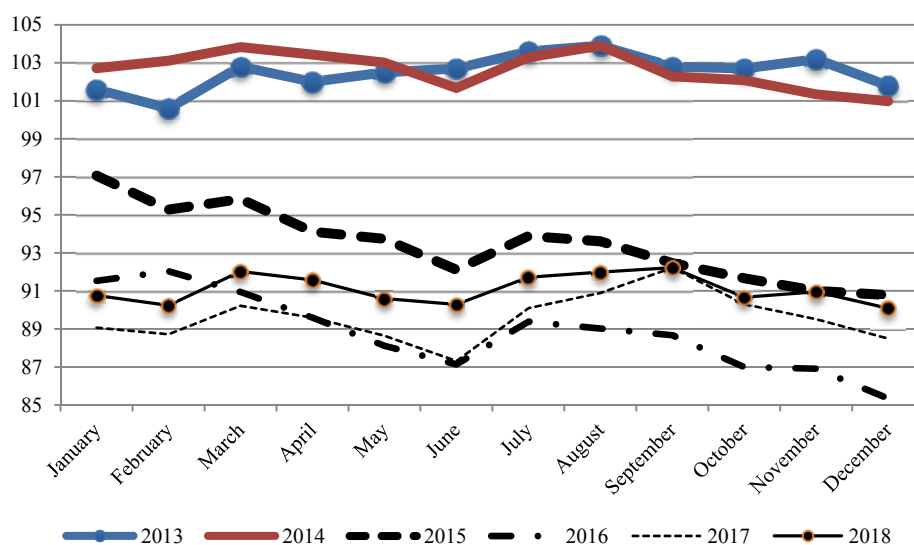


Fig. 31. Retail foodstuffs purchases in constant prices, current month relative to the corresponding month of 2012, percent

Source: Rosstat .

Demand revival resulted in growth of imports relative to the previous year (Fig. 32).

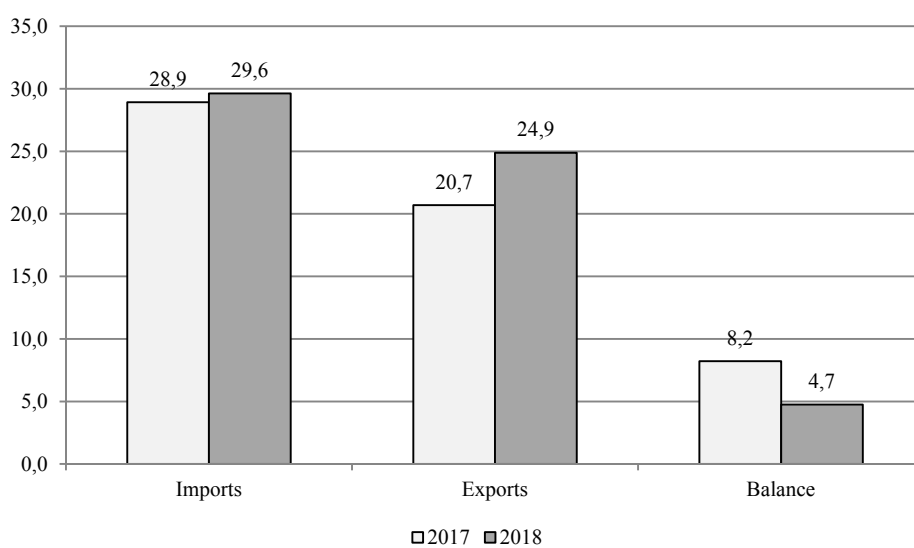


Fig. 32. Export and import of foodstuffs and agricultural raw materials (FEACN 1-24, billions of USD)

Source: RF Customs Service.

While both imports and exports were on the rise, the balance of imports and exports hit its record low of USD 4.7 billion.

4.5.3. Changes in agricultural policy

In 2017, the first phase (program-based, planned for the period 2013–2017) of the implementation of the Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs for 2013–2020 was completed.

From 2018 onwards, the project-based phase was started, to last until December 31, 2020¹. It is expected that the Government Program should be prolonged until 2025², and so its period will extend to 12 years. The first Government Program was planned for 5 years (2008–2012), the second one (in its current version) – for 8 years (2013–2020). The initially established 5-year period was adopted as the most feasible one, to ensure a sustainable agricultural policy. The program developers believed that the directions, priorities, measures and rules of government support in a medium-term perspective should not undergo any dramatic alterations, and the agricultural business community thus would be certain that all activities, investment including, could be planned with confidence. When that five-year period was over, the priorities, mechanisms and scope of funding were to be analyzed and revised, whenever necessary. During the program implementation period, no changes in its main parameters (its structure, directions, set of measures, etc.) were planned, except in case of an emergency situation, to avoid any negative effects on businesses.

However, in actual practice the Government Program became a short-term planning tool, as over the course of the year 2018 alone, the RF Government issued 4 decrees whereby it was altered in one or other way, and since its launch in 2013, a total of 12 decrees has been issued by the Government. The alterations had to do with the priorities, goals, structure, mechanisms, presentation forms, and other core components of the Government Program. At the same time, the planned prolongation of the Government Program moves it over to the category of long-term planning tools, and eliminates the procedure for analyzing the results of the medium-term period. This fact points to a lack of proper understanding, on the part of its developers, of the Government Program's meaning and goals specifically as a medium-term planning tool, the latter being legally consolidated in Article 8 of the Federal Law 'On Agriculture Development'.

Some significant changes in the structure of the Government Program were introduced by RF Government Decree No 1544 dated December 13, 2017 (the subsequent amendments being of a more detailed and targeted nature). The program developers had to be guided by the said Decree's provisions while elaborating the Government Program's new version. The Decree introduced strict 'Rules for the development, implementation and performance assessment in the course of

¹ Decree of the RF Government No 717 dated July 14, 2012 (as amended on September 6, 2018) 'On the Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs for 2013–2020'.

² E. Fastova spoke of the government support of the AIC at the conference 'Russia's Agroholdings – 2018'. See <http://mcx.ru/press-service/news/elena-fastova-rasskazala-o-gospodderzhke-apk-na-konferentsii-agrokholdingi-rossii-2018/>

implementation of some government programs of the Russian Federation' (hereinafter – the Rules). In particular, the Rules established the requirements to the structure, content and goals of the Government Program. Besides, they impose a ban on '*the inclusion of supplementary and substantiating materials into the set of materials to be approved by an act of the Government of the Russian Federation*'¹. As a result, in order to comply with the Rules, the Government Program became a document of form, and not of content: it does comply with the established format, but its content offers no clues as to the reasons for elaborating one or other direction of government support, and no specific support mechanisms.

Thus, at present the Government Program documentation² consists of a generalized Certificate (with a brief outline of its funding scope, deadlines, goals, and directions of development) and 16 disjointed annexes with no references to any specific details, or even to the goals and directions put forth in the program certificate (the Government Program contains no explanatory notes because these are forbidden by the Rules (see above), and so it is difficult to find any substantiation for the composition and content of the Annexes. Besides, one of them was abolished. One annex contains a short list of participants in the Government Program (government departments) in addition to the RF Ministry of Agriculture. Seven annexes outline the 'development directions' that have to do with sustainable development of agricultural lands and land improvement, and these, in spite of their importance, are not the key areas of government support for agricultural producers. Another two annexes set the criteria for territories to be earmarked for accelerated development, including the Far-Eastern Federal District and the Arctic zone, which can hardly be regarded as the main regions where the goals set by the Government Program are to be achieved because of their tough climatic conditions. That annex, as well as those regions, were included in the program in order to comply with paragraph 13 of the Rules, approved by Decree of the RF Government No 1242 dated October 12, 2017 (as amended on February 23, 2018), which consolidated the list of regions earmarked for accelerated development. Probably the program developers thought that those regions were to become leaders in all spheres and sectors, agriculture including. This goal can probably be achieved – abundant budget funding can make corn grow inside the Arctic Circle³, and that region may well get ahead of Krasnodar Krai in terms of its gross value added growth rate in agriculture.

And finally, the four remaining annexes set the rules for allocating federal budget subsidies to the budgets of RF subjects in accordance with the four key support mechanisms – the single regional subsidy, untargeted support of crop production, the subsidy per kilogram of sold milk, and compensation of interest on investment loans

¹ As a government program should be approved by a decree of the RF Government, it is subject to this requirement.

² The latest version, as approved by RF Government Decree No 1063 dated September 6, 2018.

³ The gross grain and legume yield target for all categories of agricultural producers operating in those subjects of the Russian Federation where some territories are situated inside the Arctic zone set in the Government Program (Annex 15) is 2,332.400 t in 2018.

issued to the AIC. No funding targets are set for these measures, and there are no instructions as to which goals and directions they should correspond to. Besides, the Annexes do not fully outline the entire spectrum of government support measures designed to help the achievement of the goals set in the Government Program, and thus somewhat distort its ideas. Thus, in particular, there is no description of the mechanism employed in funding the principal support measure – preferential loans for agricultural producers, which in 2018 accounted for one-fifth of total federal expenditure allocated to the Government Program (the old interest compensation mechanism applies only to the loans taken before January 1, 2017).

The goals set by the Federal Law ‘On Agriculture Development’ differ from those set in the Government Program, which was adopted on the basis of that Law. At present, the Government Program declares other goals that correspond to the Rules introduced by Decree No 1242 of the RF Government. The Government Program states as follows:

Goal 1 – to ensure food security in the Russian Federation, with due regard for the economic and territorial accessibility of products of the AIC (the agricultural production index for all categories of producers (in comparable prices) in 2020 will amount to 108.6–110.8 percent relative to 2015);

Goal 2 – to produce value added in agriculture in the amount of RUB 3,890–4,050 billion in 2020;

Goal 3 – the growth rate of exports of products supplied by the AIC in 2020 should amount to 132–133.3 percent relative to 2015;

Goal 4 – the physical volume of investment in fixed assets in agriculture in 2020 should amount to 111.3–113.1 percent relative to 2015;

Goal 5 – the disposable resources of households (per household member per month) in rural areas in 2020 should amount to RUB 17,900–18,300.

Essentially, these are indicators, and not goals. However, such an approach was outlined by the authors of the Rules, which require that *‘the goals of a pilot government program should be formalized as numerical targets (indicators)’*. This means that already at the level of mandatory official instructions, goals have been replaced by more narrow indicators. As a result of too faithfully obeying the letter of the law, the developers of the rules have inadvertently disobeyed its spirit. Thus, for example, the goal of ‘securing sustainable development of agricultural territories, employment of rural population, improving their living standards’ proclaimed in the Federal Law ‘On Agriculture Development’ in the end was reduced to ‘achieving the target for the volume of disposable resources of households’.

The goals set in the Government Program need to be properly adjusted. Because the agriculture development goals are presented in the form of ‘narrow’ indicators (one for each goal), the entire structure, which must be organized so as to properly ensure their achievement (program directions – measures), thus becomes questionable from the point of view of its reasonability and performance.

The Government Program in its current version, in addition to the five goals (their number also being established in accordance with the Rules), also encompasses

10 program directions (subprograms), which correspond to 4 projects and 6 subprogram in its process-related part. The introduction of the process-related and project-related parts was the main innovation introduced in 2018 – presumably in order to significantly improve the management quality in the agricultural sector.

A ‘project’ is defined as ‘a complex of interrelated measures designed to achieve unique results in conditions of limited timelines and resources’¹. While a ‘process’ cannot be put in the ‘project’ category for a number of reasons – for example, a process is extended over time, it is support-oriented, and it is difficult to precisely describe specific measures because a ‘process’ occurs, as a rule, in the framework of functional activities of a government department. But the structure described here is something completely different. Processes involve ‘measures’, while ‘projects’ have only goals, and no measures. And nowhere in the Government Program it is stipulated which measures are designed to support a project, or the specific amount of funding to be allocated to it (only the total amount of funding to cover all the projects is determined in the ‘certificate’ part). But, the ‘process’ *Agricultural Land Improvement in Russia* is supplied with a very detailed list of capital construction sites (Annex 3), from which one can learn that, for instance, a total of RUB 12,000,000 will be spent on ‘Reconstruction of the drainage network in the land improvement system *Suvorosh*’ in Viazniki district (Vladimir Oblast) 2018, and RUB 1,700,000 – on the related planning and survey activities. The relative significance of components included in the current version of the Government Program is clearly blown up out of proportion. However, the Rules introduced by Decree No 1242 demand that ‘*a list of capital construction sites, measures (enlarged investment projects), property entities included (or to be included) in the federal targeted investment program*’ should be provided, and so the relevant government department complied with the Rules by augmenting the Government Program’s structure by Annex 3.

Some questions arise in relation to the placement of some of the specific program directions either in the process-related or project-related part. Thus, for example, it is not clear why ‘Technological Modernization of the AIC’ is defined as a project – that is, it is supposed to be finite and so, following the logic applied by its authors, it will be successfully over once its goals are achieved – namely, the renewal coefficient established for the tractor, forage and grain harvester fleet (for some reason, applied only to agricultural organizations); while at the same time ‘Development of the Raw Materials Base for Supplying Light Industry with Quality Agricultural Raw Materials’ is a process, although it envisages the implementation of some specific support measures in specific sectors.

On the whole, it seems that the goals set in the Government Program, once achieved, might be unsustainable. The process of technological modernization of the AIC in the Government Program is presented as a finite project, and besides it is reduced to

¹ Decree of the RF Government No 1050 dated October 15, 2016 ‘On the organization of project-related activities of the Government of the Russian Federation’ (see assistance system Consultant Plus (electronic database)).

achieving the set targets of renewal of tractors and some types of harvesters owned by agricultural organizations. Obviously, as soon as such a ‘project’ is completed, it will be necessary to launch a new one because (1) machinery is constantly aging, but it is not being constantly replaced, so the renewal level is not going to last; (2) the project targets only two items (tractors and harvesters), overlooking the diversity of all existing machinery and technologies.

Since the Government Program lacks proper logic and is structured disproportionately, it is not surprising that the small-scale targeted measure ‘Compensation of the Costs Incurred by Hippodromes in Their Tests of Purebred Horses’ is included in the process-related part – the program direction ‘General Conditions for the Functioning of the AIC’s Sectors’. Also, as noted earlier, in Annexes 15 and 16 one can find detailed descriptions of the targets to be achieved, the allocation of funding by source, by year, by project and by process among the regions earmarked for ‘accelerated development’, while no such information is provided with regard to those regions that account for the bulk of current agricultural production.

In its present form, the Government Program fully complies with the ‘Rules for the development, implementation and performance assessment in the course of implementation of some government programs of the Russian Federation’ approved by Decree of the RF Government No 1242 dated October 12, 2017 (as amended on February 23, 2018). Meanwhile, its usefulness for the potential recipients – agricultural producers, rural residents, regional and municipal administrations of the AIC – is still questionable.

Funding and principal measures. The text of the Government Program¹ provides only information on general funding. Thus, in 2018 the total amount of allocations under the Government Program was RUB 298.3 billion, including federal budget allocation of RUB 241.99 billion (81.1 percent of total), consolidated budget allocations of RF subjects in the amount of RUB 44.97 billion (15.1 percent), and funding from off-budget sources in the amount of RUB 11.37 billion (3.8 percent). Thus, the bulk of support of the AIC is shouldered by the federal budget. The project-related part takes up 68 percent of total funding (RUB 202.9 billion), of which RUB 170.98 billion (84.3 percent) is allocated from the federal budget, and the rest (RUB 31.9 billion (15.7 percent)) – from the budgets of RF subjects. One can get the idea of the structure of and federal funding allocated to each of the measures outlined in the Government Program from the Federal Law ‘On the Federal Budget for 2018 and the Planning Period 2019–2020’ (*Table 31*).

As seen from *Table 31*, the principal form of federal support in the agricultural sector is support for investment loans, accomplished in two ways. The first way is the compensation of interest paid on loans taken before January 1, 2017. The second way is the compensation of credit institutions for their loss of income as a result of issuance of

¹ Decree of the RF Government No 717 dated July 14, 2012 (as amended on November 30, 2018) ‘On the Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs for 2013–2020’.

loans at reduced interest rates to agricultural producers and processors of agricultural products before January 1, 2017.

Table 31

The amount of federal budget funding allocated to the Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs for 2013–2020 in 2018, billions of rubles

Program directions of the Government Program	Billions of rubles	percentage of total
Government Program, total	241.99	100.00
Departmental project <i>Development of AIC Sectors Ensuring Accelerated Import Substitution of Main Types of Agricultural Products, Raw Materials and Foodstuffs</i> , including:	58.31	24.10
Measure <i>Non-targeted Support of Agricultural Producers in Their Crop Production</i>	11.34	4.69
Measure <i>Increasing Productivity in Dairy Farming</i>	7.96	3.29
Measure <i>Aid in Achieving Regional Program Development Targets in AIC</i>	39.00	16.12
Departmental project <i>Promotion of Investment Activity in Agroindustrial Complex</i> , including:	102.00	42.15
Measure <i>Support of Investment Lending to AIC</i> – subsidies to compensate for interest payment on investment loans issued to AIC	52.22	21.58
Measure <i>Support of Preferential Lending to AIC Organizations</i> – subsidies to credit institutions designed to compensate them for their lost incomes on loans issued at reduced interest rate to agricultural producers, organizations and individual entrepreneurs involved in production, industrial processing and sale of agricultural products	49.68	20.53
Departmental project <i>Technological Modernization of the AIC</i>	10.00	4.13
Subprogram <i>Management of Government Program Implementation</i>	28.34	11.71
Subprogram <i>Ensuring General Conditions for Functioning of AIC Sectors</i>	13.86	5.73
Subprogram <i>Development and Improvement of Agricultural Lands in Russia</i>	11.43	4.72
Subprogram <i>Scientific and Technological Backing for Development of Sectors of Agroindustrial Complex</i>	1.15	0.48
Priority Project <i>Export-oriented AIC Production</i>	0.66	0.27
Subprogram <i>Sustainable Development of Agricultural Lands</i>	16.23	6.71

Source: Federal Law dated December 5, 2017 No 362-FZ (as amended on July 3, 2018 No 193-FZ).

So, as the obligations are gradually fulfilled, the relative share of interest compensation in the total lending structure will be shrinking. The main normative document whereby the compensation of credit institution for income loss is regulated has been Decree No 1528 of the RF Government dated December 29, 2016 (as amended on October 16, 2018). In 2018, the Rules were amended to make them more specific (by Decree No 1230 of the RF Government dated October 16, 2018). Among the main new provisions was the one whereby the compensation to authorized banks for their loan agreements concluded in 2019 and thereafter was reduced from 100 to 90 percent of the RF Central Bank's key rate. Besides, it now became possible to rely on loans in settlements with suppliers under letters of credit.

Another measure envisaged in the departmental project *Promotion of Investment Activity in the Agroindustrial Complex* was 'compensation of direct costs incurred during the construction and modernization of agroindustrial complex entities'. It has advantages over the mechanism of preferential investment loans in that it does not entail long-term government obligations. However, the actual amount of funding thus allocated is very small – RUB 100 million (2018), and it can be earmarked for a rather broad range of AIC entities under Decree of the RF Government No 1413 dated November 24, 2018. The list of entities to be funded is revised every year, which destabilizes the business community.

In terms of funding scope, second comes the departmental project Development of AIC Sectors Ensuring Accelerated Import Substitution of Main Types of Agricultural Products, Raw Materials and Foodstuffs, which mainly channels the current by-sector support.

Untargeted support mainly goes to the crop production sector. The payments are earmarked for the compensation of some of the costs of agricultural technologies applied in the cultivation of cereals and legumes, forage production, as well as vegetables, and calculated per hectare in accordance with the list approved by the RF Ministry of Agriculture. In fact, the allocation of support to specific types of crops makes it targeted, thus raising questions as to whether one or other type of crops indeed belongs to the WTO Green Box category. In 2018, a total of RUB 11.3 billion from the federal budget, with an additional RUB 5 billion from the Reserve Fund, was allocated to the purchases of diesel fuel in the amount of not less than 90,000 tonnes, to power the use of agricultural technologies during that year¹. In 2018, untargeted support was provided to the total value of RUB 20.88 billion, including RUB 16.34 billion from source at the federal level, and RUB 4.5 billion from regional budgets.

The subsidies earmarked for boosting productivity in dairy farming were spent by way of compensating part of the per kilogram cost (less VAT) of cow and (or) goat milk that was sold and (or) delivered to on-site processing facilities. The name of this subsidy points to the task of promoting higher productivity in the dairy farming sector. That task is reduced in the main to applying an upward coefficient to the federal subsidies earmarked for those RF subjects where the average annual dairy cow productivity reported by farms at the end of a reporting year amounts to 5,000 kg or higher. The RF subjects likewise allocate their subsidies to agricultural producers ‘on a differential basis, depending on the dairy cow productivity index for the reporting financial year relative to the corresponding index for the previous reporting financial year’². At the same time, in accordance with Item 7 of the Rules that regulates the allocation and distribution of that subsidy, ‘the funding is granted to agricultural producers on the basis of the following criteria:

- a) the agricultural producers should actually own a herd of cows and (or) goats as of the first day of the month during which they apply to the empowered body for funding;
- b) the agricultural producers should safeguard their cow herd against decline in the reporting financial year relative to the previous year’.

In other words, the purpose of subsidizing is not so much to increase productivity, as to safeguard the existing herd and keep output at the existing level. No innovations were introduced to these rules in 2018, with the exception of a more specific provision, which applied to all types of compensatory subsidies, that ‘the costs are compensated less the amount of VAT’ (Decree of the RF Government No 1443 dated November 30, 2018).

¹ Instruction of the RF Government No 1620-r dated August 4, 2018.

² Item 5 of Annex 8 ‘Rules for allocation and distribution of subsidies from the federal budget to the budgets of subjects of the Russian Federation aimed at increasing productivity in dairy farming’. Decree of the RF Government No 717 dated July 14, 2012 (as amended on November 30, 2018).

The funding allocated under that subsidy in 2018 amounted to RUB 10.72 billion, including RUB 2.75 billion from regional budgets. Thus, the bulk of the burden of untargeted support in the crop production and dairy farming sectors has been shouldered by the federal budget.

One of the most substantial channels of funding has been federal support allocated to the measure titled *Aid in Achieving Regional Program Development Targets in AIC*, which recently pooled several different subsidies that used to be allocated by way of targeted funding from the federal budget. These are the support of purebred animal breeding, insurance in the agricultural sector, cooperation, elite seed growing, perennial crop plantations, small-scale farming, short-term loans at reduced interest rates, etc. In order to maintain the targeted support structure across consolidated government support measures, the RF Ministry of Agriculture clearly formulated the corresponding program directions¹ and linked the allocation of support to RF subjects with their ability to meet the set targets². As a result, the effect of allocated budget expenditure under this subsidy is assessed on the basis of 24 targets and multiple reporting forms.

Thus, the Ministry has accomplished a nearly impossible task – it fulfilled the order that the measures should be pooled, while at the same time maintaining their successive order. However, the governance procedures actually became more cumbersome, and thus less efficient. The targets and the amount of funding allocated to each specific measure are still being controlled by the government bodies, and besides, an additional new ‘superstructure’ now binds together all those measures. Overall, in 2018, the funding allocated to the single subsidy was to amount to RUB 48 billion, of which RUB 39 billion came from the federal budget, and RUB 9 billion – from the regional budget. Thus, the lion’s share is once again covered by the funding from the federal level.

Among the innovations introduced in 2018 into the rules regulating the allocation of this subsidy, there was the discontinuation of financial aid to individuals cultivating their individual household land plots, that aid previously being earmarked for the payment of insurance premiums on crop production or animal husbandry insurance agreements; the addition of three more items onto the list used for allocating the single subsidy to the regions (now it consists of 19 items); the introduction of alterations to the allocation formula – now it is adjusted by the relative share and total planned area of new vineyards planted during the year of subsidy allocation in the i -th RF subject in the total planned area of new vineyards, and the relative share of planned insured cropped (sown) area (in arbitrary units) and insured livestock (in arbitrary units) during the year of subsidy allocation in the i -th RF subject in the total insured cropped (sown) area (in arbitrary units) and insured livestock (in arbitrary units)³.

¹ Order of the RF Ministry of Agriculture No 373 dated July 27, 2017.

² Items 4, 9, 30 of Annex 9 ‘Rules for allocation and distribution of subsidies from the federal budget to the budgets of subjects of the Russian Federation aimed at promoting the achievement of targets set in the regional AIC development programs’. Decree of the RF Government No 717 dated July 14, 2012 (as amended on November 30, 2018).

³ As amended by Decree of the RF Government No 1443 dated November 30, 2018.

Agricultural insurance covered by government support is not popular among the beneficiaries – agricultural producers. The insured cropped area is negligible. In 2016, the agricultural cropped area and perennial crop plantations covered by insurance agreements amounted to only 5 percent of the total sown area, and in 2017 – to 1.7 percent.¹ Among the reasons for such a situation, the Ministry points to ‘the low level of compensation coverage, low probability of realizing insurance claims in accordance with the law, and total absence in some regions of insurance organizations which provide government-backed insurance’². Evidently, these are objective reasons, and they prevent agricultural insurance from becoming more widespread. The Ministry must deal with these issues, and not simply punish the regions, and thus indirectly penalize the agricultural producers by cutting the funding for the other program directions covered by the single subsidy that are more in demand. Here, we can witness the tendency towards goal substitution – the Ministry is becoming more concerned about achieving the targets that it must report, rather than about the sector’s development in the interest of agricultural producers.

One of the most important program directions supervised by the RF Ministry of Agriculture is sustainable development of agricultural territories³. It was previously included in the Government Program for 2013–2020 as a FTP (federal target program). The same status was granted to the program direction *Development and Improvement of Agricultural Lands in Russia*. By the Government’s Decree No 1243 dated October 12, 2017, from January 1, 2018 the implementation of these FTP was discontinued before their deadlines had been reached, and now, after their status has been changed to a lower one, they both operate in the framework of the current Government Program (as amended by Decree No 1443 on November 30, 2018) as DTP (departmental target program). By the RF President’s Assignment, the status of program directions for sustainable development of agricultural territories was upgraded – by June 1, 2019, a new Government Program must be approved, which would ensure the effective implementation of ‘a comprehensive approach to the development of agricultural territories’⁴. Over the year 2019, the funding procedures based on program directions and the same DTP-based targets will remain unchanged.

4.5.4. Conclusions

1. The existing statistical follow-up methods make it impossible to objectively assess the ongoing processes in agriculture. Statistical methods need to be improved, and the

¹ National Report ‘On the progress and results of implementation, in 2017, of the Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs for 2013–2020’. – P. 45.

² Ibid.

³ Decree of the RF Government No 450 dated June 12, 2008. Provision on the RF Ministry of Agriculture (as amended on August 16, 2018).

⁴ Dmitry Patrushev delivered a report at the meeting of the RF Federation Council, addressing the issues of sustainable development of agricultural territories. See <http://mcx.ru/press-service/news/dmitriy-patrushev-vystupil-s-dokladom-na-sovete-zakonodateley-rf-po-voprosam-ustoychivogo-razvitiya/>

old institution of agricultural statisticians (municipal statistics) must be reestablished; the methodology applied in statistical observations and estimations based on sample studies should be altered, and Rosstat should become a self-sufficient independent organization, no longer subordinated to the RF Ministry of Economic Development. Until this is accomplished, estimates of growth rates in agriculture should be taken with a pinch of salt, and a skeptical view of official statistics should invariably be held.

2. The production indices for 2018, in spite of the lower yields of grain and sugar beet, are not fraught with risks for consumers or agricultural producers. Gross grain yield coupled with the accumulated reserves makes it possible to boost exports without any threat to the domestic market, while the rising prices in the domestic market are compensating the producers for their losses of the past years caused by low prices. The shrinking yield of some crops like millet has already produced a surge of their prices, but given the very low consumption volume (about 1 kg of millet per person per year) and low price, no significant effect on household expenditures can be expected.

3. The slow growth of demand for foodstuffs from July 2017 onwards (after a decline from August 2014 through June 2017) continued throughout 2018. However, the demand index only rose as high as its 2016 level. It still hovers significantly below its levels of 2015, 2014 or 2013. In such a situation, the introduction of additional payments, which will affect food prices, is fraught with a high risk of shrinkage in the demand for food. So the issue of food aid still retains its importance. The estimated minimum aid would require the transfer of about RUB 89 billion to the needy families. This measure will result in a 40 percent increase in the food expenditures by the poorest households, which seems to be substantial in relative terms, but is very little in absolute terms (RUB 1,000 per family member per month). In order to identify the group of needy families, new selection criteria will need to be applied, which will take into account their living conditions. When elaborating the food aid mechanism it will be feasible not to rely exclusively on domestically produced foodstuffs, because by no means all of them – even the cheapest ones – can really compete with their low-price foreign counterparts.

4. An analysis of improvements in government management procedures based on the experience of implementing the Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs for 2013–2020 demonstrates that instead of essentially improved management (when priority is given to the goals of beneficiaries – agricultural businesses, and agricultural development), only some purely formal and superficial alterations have been reluctantly made (willy-nilly the officials have to comply with the established rules, carry out official assignments, etc.). This trend is rather dangerous, it undermines the system performance, and it raises even more concerns because this phenomenon can be observed by no means only in agriculture.

The Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs for 2013–2020 must once again be revised in accordance with the requirements stipulated in the Federal Law ‘On Agriculture Development’, where it is defined as ‘the core document setting the goals

and main directions of agriculture development over the medium-term period, the financial provision thereof, and the mechanisms to be employed in implementing the envisaged measures'. At the same time, in its form and content alike, the Government Program must be strongly oriented to the beneficiaries, who must receive from this core document clear informative signals for the medium-term development prospects of agricultural businesses and territories'.

4.6. The Foreign trade¹

4.6.1. The state of the global economy

In November 2018, the Organization for Economic Development and Cooperation (OECD) presented its updated forecasts², according to which global economic growth would slow down from the current 3.7 percent (the OECD's estimate as of 2018) to 3.5 percent in 2019–2020. Earlier, the OECD's experts expected a 3.7 percent growth in global GDP in 2019. But growth in trade and investments slowed down on the back of the US protectionist policy. Growth in interest rates and appreciation of the US dollar exchange rate resulted in the capital outflow from developing countries and depreciation of their currencies. In the OECD zone, monetary stimulation measures are gradually scaled down. Trade conflicts between the US and China constitute a separate negative factor. According to the OECD's estimate, imposition by the US of a 25 percent duty on Chinese imports and adoption by China of similar measures may cost the global economy, US economy and Chinese economy 0.5 percent of GDP, 0.8 percent of GDP and 1 percent of GDP, respectively.

India's economy is growing at a faster rate than others. In 2018, India's GDP increased by 7.3 percent and growth of 7.4 percent is forecasted in 2019. China's economy is expected to grow by 6.6 percent and 6.2 percent in 2018 and 2019, respectively, while the Indonesian economy, by 5.2 percent in 2018 and 2019.

The OECD's experts revised downwards the forecast for Russia. If at the beginning of the year growth of 1.8 percent was expected on the basis of the results of the current year, it is now stated that Russian GDP growth of over 1.6 percent of GDP is infeasible. In 2019, this indicator will fall to 1.5 percent.

According to the opinion of the World Bank's experts³, late in 2018 global economic activities slowed down. Due to reduction of trade and investment volumes, in 2019 global economic growth rates slowed down to 2.9 percent. The Central Bank of the Russian Federation forecasted growth of 3 percent. The forecast for 2020 is revised downwards by 0.1 p.p. to 2.8 percent of GDP, too.

After several months of decline, in June the global trade growth consolidated somewhat on the back of revival of exports from the euro zone and developing Asian

¹ This section was written by N. Volovik, the Gaidar Institute and RANEPa.

² The official web-site of the OECD. URL: <http://www.oecd.org/economy/outlook/economic-outlook/>

³ The official web-site of the World Bank. URL: <http://www.vsemirnyjbank.org/ru/news/press-release/2019/01/08/darkening-prospects-global-economy-to-slow-to-29-percent-in-2019-as-trade-investment-weaken>

countries. However, the latest data show that growth was sooner of a temporary nature because the indicator of new export orders decreased in September for eight months running, having fallen slightly below the threshold value which signals a forthcoming shrinkage of the global trade. At the same time, there is less uncertainty about the US trade policy with signing of a new agreement on free trade with Mexico and Canada (the United States-Mexico-Canada Agreement – USMCA). The amendments introduced into the USMCA include tougher requirements to the rules of identification of the country of origin of goods for the automotive sector, a higher extent of access for the US to the Canadian dairy market, tougher provisions on labor and intellectual property and simplified dispute settlement rules.

In the International Monetary Fund's (IMF) report – *The Prospects of Development of the Global Economy* (PDGE)¹ – published in January 2019, it is stated that growth in investments, industrial output and global trade slowed down in H2 2018. The IMF pays attention to growth in interest rates in developing countries. Consequently, global GDP will keep growing, but at a slower rate. In 2019, growth rates of global GDP are expected to slow down to 3.5 percent, while in 2020, to 3.6 percent against growth of 3.7% in 2018. As compared to the previous report, which was released in October 2018, the forecasts for 2019 and 2020 were revised downwards by 0.2 p.p. and 0.1 p.p., respectively. According to the IMF, the main risks to the global economy are the escalation of trade war between the US and China, the risks of the Brexit without a deal with the EU and slowdown of economic growth rates in the US and China. In the US, the growth rates will fall to 2.5 percent and 1.8 percent in 2019 and 2020, respectively, against 2.9 percent in 2018. In China, they will fall to 6.2 percent in 2019–2020, against 6.6 percent in 2018. The main factor behind this slowdown will be mutual trade barriers.

In addition, global growth is weakened by the following factors:

- Problems experienced by German car-makers because of introduction of new fuel emission standards;
- The weakening of the Italian economy amid weak domestic demand and higher cost of borrowings;
- Problems in the French economy on the back of negative consequences of street protests and industrial actions;
- Economic problems of Turkey following the foreign exchange crisis last summer;
- The negative situation and the downbeat mood of investors on global financial markets.

The IMF expects GDP growth of 2 percent and 1.7 percent in 2019 and 2020, respectively, in various countries. In the current year, emerging economies' growth slowed down, too, from 4.6 percent in 2018 to 4.5 percent in 2019. In 2020, economic growth is expected to speed up to 4.9 percent. The 2019 forecast is 0.2 p.p. lower than in the October 2018 issue of the PDGE.

¹ The official web-site of the IMF. URL: <https://www.imf.org/ru/Publications/WEO/Issues/2019/01/11/weo-update-january-2019>

Due depreciation of prices of oil and financial conditions getting tougher, the forecast of Russia's GDP growth was revised downwards from the forecasted level of 1.8 percent in October to 1.6 percent and 1.7 percent in 2019 and 2020, respectively (*Table 32*).

Table 32

**The dynamics of global GDP and global trade
(growth rates, % change as compared
to the previous year)**

	2010	2011	2012	2013	2014	2015	2016	2017	Esti- mate	Forecast	
									2018	2019	2020
Global GDP volume	5.4	4.3	3.5	3.5	3.6	3.5	3.3	3.7	3.7	3.5	3.6
Countries with developed economies	3.1	1.7	1.2	1.4	2.1	2.3	1.7	2.3	2.3	2.0	1.7
United States	2.6	1.6	2.2	1.8	2.5	2.9	1.6	2.2	2.9	2.5	1.8
Euro zone	2.1	1.6	-0.9	-0.2	1.4	2.1	1.9	2.4	1.8	1.6	1.7
Germany	3.9	3.7	0.7	0.6	2.2	1.5	2.2	2.5	1.5	1.3	1.6
France	1.9	2.2	0.3	0.6	1.0	1.0	1.1	2.3	1.5	1.5	1.6
UK	1.7	1.6	1.4	2.0	2.9	2.3	1.8	1.7	1.4	1.5	1.6
emerging market and developing economies	7.4	6.2	5.1	4.7	4.6	4.0	4.3	4.7	4.6	4.5	4.9
Commonwealth of Independent States	4.8	4.8	3.4	2.2	1.0	-2.8	0.4	2.1	2.4	2.2	2.3
Russia	4.3	4.3	3.4	1.3	0.6	-3.7	-0.2	1.5	1.7	1.6	1.7
Without Russia	6.0	6.1	3.6	4.2	1.9	-0.5	1.9	3.6	3.9	3.7	3.7
Developing Asian countries	9.5	7.8	6.7	6.6	6.8	6.6	6.4	6.0	6.5	6.3	6.4
China	10.4	9.3	7.7	7.7	7.3	6.6	6.7	6.9	6.6	6.2	6.2
India	10.1	6.3	4.7	5.0	7.3	7.6	7.1	6.7	7.3	7.5	7.7
Latin America and Caribbean countries	6.2	4.6	2.9	2.7	1.3	0.0	-0.9	1.3	1.1	2.0	2.5
Brazil	7.5	2.7	1.0	2.5	0.1	-3.8	-3.6	1.4	1.3	2.5	2.2
Mexico	5.6	4.0	4.0	1.1	2.1	2.5	2.3	2.2	2.1	2.1	2.2
Volume of global trade in goods and services	12.6	6.1	2.9	3.0	3.3	2.6	2.2	5.2	4.0	4.0	4.0
Countries with developed economies	12.0	5.7	2.0	2.4	3.4	3.6	1.8	4.3	3.2	3.5	3.3
Emerging market and developing economies	13.7	6.8	4.6	4.4	2.9	1.3	3.0	7.1	5.4	4.8	5.2

Source: The IMF's data.

Changes in trade agreements, risks related to introduction of new import customs duties, as well as worsening of economic expectations have had a negative effect, primarily, on export-oriented countries, such as China or Germany, a leading euro-zone economy. It means that GDP annual growth rates of Russia's main trade partners are expected to slow down: from 6.9 percent in 2017 to 6.2 percent in 2019 in China and from 2.4 percent to 1.6 percent in the euro-zone.

According to the data of the World Trade Organization (WTO), within nine months of 2018, the value of global exports of goods increased by 11 percent as compared to the relevant period of the previous year¹. Cyprus with the highest growth in exports (64

¹ Calculated on the basis of the data of the Monthly Merchandise Trade Values on 70 countries which account for 90 percent of the global trade. URL: https://www.wto.org/english/res_e/statis_e/short_term_stats_e.htm

percent) is followed by Malta (29.4 percent), Kazakhstan (28.4 percent) and the Russian Federation (27.8 percent). As a result, in the rating of the largest exporters the Russian Federation moved upwards from the 14th place (with the share of 2.1 percent in global exports) to the 13th place (with the share of 2.4 percent in global exports).

In 2018, the highest foreign trade turnover was registered in China: within 9 months it amounted to USD 3431.9 billion. From 1994 China's export surplus has always been positive; within nine months of 2018 it amounted to USD 221.4 billion.

The US is rated the second with the foreign trade turnover amounting to USD 3,180.1 billion within nine months of 2018. However, within nine months of 2018 the US foreign trade deficit was equal to USD 695.6 billion.

Germany retained the third place with its foreign trade turnover amounting to USD 2,154.7 billion in January-September 2018. Germany's external surplus is equal to USD 213.1 billion.

Global trade growth keeps falling. This is evidenced by the World Trade Outlook Indicator, WTOI¹, which fell to 96.3 points in Q1 2019 from 98.6 points in Q4 2018. This index value is the nine years' low since March 2010. It is to be reminded that the WTOI value below 100 points signals trade growth below the trend.

The weakness of the WTOI as a whole can be explained by a dramatic decrease in all its components, which are affected by growing tensions in the global trade. So, in Q1 the index of export orders fell to 95.3 points from 96.6 points in the previous quarter, the international air carriage index decreased to 96.8 points from 100 points a quarter before, the carmaking and car sales index went down to 92.5 points from 96.9 points in the previous quarter, the electronic component index declined to 88.7 points from 93.9 points and the agricultural raw material index, to 94.3 points from 97.2 points in Q4 of the previous year. The only exception is the port capacity index which turned out to be above 100 points, having fallen from the level of 101.2 points to 100.3 points, which situation can probably be explained by the front loading of ports before the tariff increase in the US and China. Taking into account the sustained slowdown of the dynamics, it is crucially important to reduce tensions in trade amid prevailing political risks and financial instability because they may provoke a more dramatic recession.

4.6.2. The Russian foreign trade situation: prices of the main commodities of the Russian exports and imports

In 2018, prices of primary products were determined by a number of factors, including interruptions in deliveries of some raw materials, growth in interest rates in the US, appreciation of the US dollar exchange rate, growing tensions in trade between large countries and pressure on financial markets in some emerging markets and developing economies (EMDEs).

¹ The WTO's official Web-site. URL: https://www.wto.org/english/news_e/news19_e/wtoi_19feb19_e.htm

In Q3 2018, prices of energy commodities appreciated by 3 percent and 40 percent as compared to Q2 and the same period of 2017, respectively, owing to substantial growth in prices of oil, coal and natural gas.

In Q3, 2018, prices of non-energy commodities fell by 7 percent relative to the previous quarter. Prices of metals depreciated by nearly 10 percent amid weak global growth and concerns over the effect of the trade dispute between the US and China on growth of the Chinese economy which accounted for 50 percent of global demand on metals. On the contrary, limitation of supplies, including the shut-down of the world's largest alumina producer¹ and ecological reduction of production in China helped underpin prices of some metals.

In Q3 2018, agricultural products depreciated by nearly 7 percent – the largest depreciation within a quarter – since Q4 2011 as compared to Q2 2018. This depreciation was driven by a number of factors, such as sufficient supplies of most oil-bearing and cereal crops (except for wheat), trade tensions which affected prices of agricultural products (particularly soya beans) and depreciation of EMDE' currencies (particularly the Brazilian real).

In 2018, the World Bank's agricultural product prices remained on average virtually unchanged as compared to 2017 (100.08 percent). The downward risks for the price forecast stem from the escalation of trade tensions. On the other side, high prices of energy commodities may put up prices of energy-intensive cereal crops, particularly, grain and oil-bearing crops. In 2019, the index of prices of agricultural products may rise by less than 2 percent, mainly, due to higher costs on energy commodities and fertilizers.

The 2018 World Bank's index of prices of energy commodities rose by 29.7 percent as compared to the previous year on the back of substantial growth in prices of its all components.

In Q3 2018, the World Bank's index of metal prices fell by 10 percent as compared to the previous quarter, despite the reduction of the LME's metal reserves, except for iron ore. The decrease was driven by the global demand shrinkage, appreciation of the US dollar and rising tensions in trade between the US and China. However, in 2018 average metal prices turned out to be higher than in 2017 owing to their appreciation early in 2018: the World Bank's Index of metal prices was equal to 106.26 percent (*Fig. 33*).

The Bloomberg Commodity Index (BCOM), which includes 22 types of primary products have been fluctuating for three years running within the range of 80 – 90 points. Having achieved on May 23, 2018 the maximum value of 91.57 points since July 2015, on December 28, 2018 the BCOM fell to the minimum level (77.59 points) since January 2016, which factor is the evidence of volatility on primary product markets.

¹ Early in October 2018, the Norsk Hydro, a Norwegian metals company suspended for an uncertain period of time the operations of the Alunorte Plant, the world's largest alumina refinery situated in Brazil.

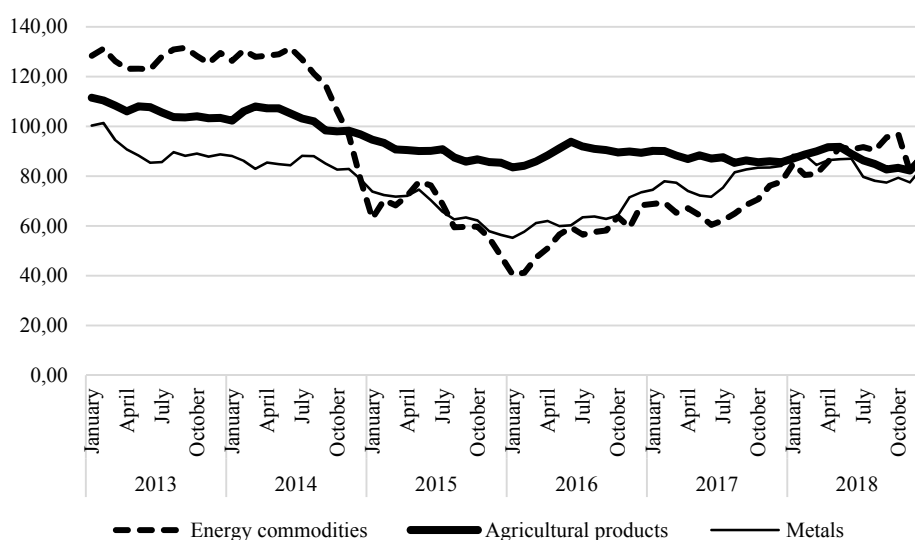


Fig. 33. The World Bank's indexes of primary product prices (the year 2010 =100 percent)

Source: URL: <http://www.worldbank.org/en/research/commodity-markets#1>

During the year, prices of oil were volatile: having achieved their maximum of USD 86.07 a barrel on October 4, the Brent oil prices fell to the year's minimum of USD 50.57 a barrel on December 28. The growth in oil prices partially reflects the prevalence of the loss-making production in Venezuela and concerns over the prospect of introduction by the US of new sanctions against Iran which may have a greater than expected effect on production and exports of Iranian oil. An increase in oil production by other members of the Organization of Petroleum Exporting Countries (OPEC) and the Russian Federation may make up for that reduction.

In 2018, the average price of Brent oil amounted to USD 71.07 a barrel, an increase of 30.7 percent on 2017. The average price of Urals oil appreciated by 32 percent to USD 70.01 a barrel in 2018 relative to 2017. In 2017 the average price of Urals oil was equal to USD 53.03 a barrel.

Demand on coal and natural gas happened to be higher than it was expected in Q2 2018 and Q3 2018 because the untypically hot weather in Asia and Europe spurred demand on electricity for air conditioning. Europe normally reduces utilization of coal in summer by switching over to alternative sources and hydro sources. However, weak winds and lack of water in rivers of Germany and France made the coal-fired power industry to step up its operations. Also, there were problems related to the reduction of nuclear power output in France and Germany because of the extended repairing. In 2018, prices of natural gas increased year on year by 34.4 percent and 24 percent in Europe and Japan, respectively, on the back of high demand, while in the US, by the mere 6.6 percent because supply was growing fast as the shale gas production increased.

Prices of South African coal and Australian coal appreciated by 14.7 percent and 20.9 percent, respectively, with ecological limitations on supplies underpinning prices

further. It is expected that prices will go down in 2019 because relative to 2018 demand will slow down, while supply is to get higher.

With mutual import duties introduced by the US and China coming into effect, the trend of appreciation of prices of commercial metals – this trend was observed for the past two years – broke up. In January 2018, the commercial metal market saw record-high prices. So, for the first time since July 2014 the price of copper surpassed the level of USD 7,000 per ton. Aluminum prices attained their five-year's maximum of USD 2,209 per ton. Growth of the above indices was related to the revival of the automotive industry in the US and Europe. The US sanctions against the Rusal, the world's second largest aluminum-producing company which accounted for about 7 percent of global aluminum supplies and limitations on metal trading at exchanges led to a situation where early in April prices of aluminum appreciated for a short period of time by 30 percent, but by the end of the month fell on the back of promises of possible weakening of sanctions if the company's main shareholders reduced their shares.

With the US and China introducing mutual trade barriers in July, all nonferrous metals on the global market depreciated dramatically. In July, metal prices depreciated relative to the previous month: aluminum (6.9 percent), copper (10.3 percent), lead (9.4 percent), tin (4.5 percent), nickel (8.7 percent) and zinc (14 percent). Despite the depreciation of nonferrous metal prices which was observed in the last few months of 2018, they generally appreciated within a year as compared to 2017: aluminum (7.2 percent), copper (5.8 percent), tin (0.4 percent), nickel (26 percent), zinc (1.1%), while lead depreciated by 3.2 percent (*Table 33*).

Table 33

Average annual global prices

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Oil (Brent), USD/per barrel	97.64	61.86	79.64	110.9	111.97	108.86	98.94	52.37	44.05	54.39	71.07
Natural gas (USA), USD/1 million BTU	8.86	3.95	4.39	4.00	2.75	3.72	4.37	2.61	2.49	2.96	3.16
Natural gas, market of Europe, USD/1 million BTU	13.41	8.71	8.29	10.52	11.47	11.79	10.05	6.82	4.56	5.72	7.68
Natural gas (Japan), USD/1 million BRU	12.55	8.94	10.85	14.66	16.55	15.96	16.04	10.93	7.37	8.61	10.67
Copper, USD/ per ton	6956	5149	7534	8828	7962	7332.1	6863.4	5510.5	4867.9	6169.9	6529.8
Aluminum, USD/per ton	2573	1665	2173	2401	2023.3	1846.7	1867.4	1664.7	1604.2	1967.7	2108.5
Nickel, USD/ per ton	21111	14655	21809	22910	17557	15032	16893	11863	9595.2	10409	13114

Source: calculations based on the data of the World Bank.

4.6.3. The main parameters of Russia's foreign trade

In 2018, Russia's foreign trade turnover kept recovering after the shrinkage of 2014–2016. In 2018, Russia's foreign trade turnover increased by 17.3 percent to USD 693.1 billion as compared to 2017. However, quarterly growth rates of Russia's foreign trade

turnover slowed down: if in Q1 2018 the trade turnover grew by 21.7 percent as compared to Q1 2017, in Q2 2018, Q3 2018 and Q4 2018 it increased by 20.7 percent, 16.8 percent and 10.9 percent, respectively. This happened on the back of slowdown of imports growth rates in Q2 2018 and reduction of the value of the imports to the Russian Federation in Q3 2018 and Q4 2018.

The foreign trade volume with far abroad countries increased by 18.2 percent to USD 610.2 billion, while that with the CIS countries, by 9.8 percent to USD 82.9 billion.

In 2018, Russian exports increased by 25.6 percent to USD 444 billion as compared to the relevant period of 2017, while Russian imports, by 4.6 percent to USD 249.1 billion. The existing dynamics of exports and imports facilitated substantial growth in the positive trade balance which increased by 68.9 percent to USD 194.9 billion (*Fig. 34*).

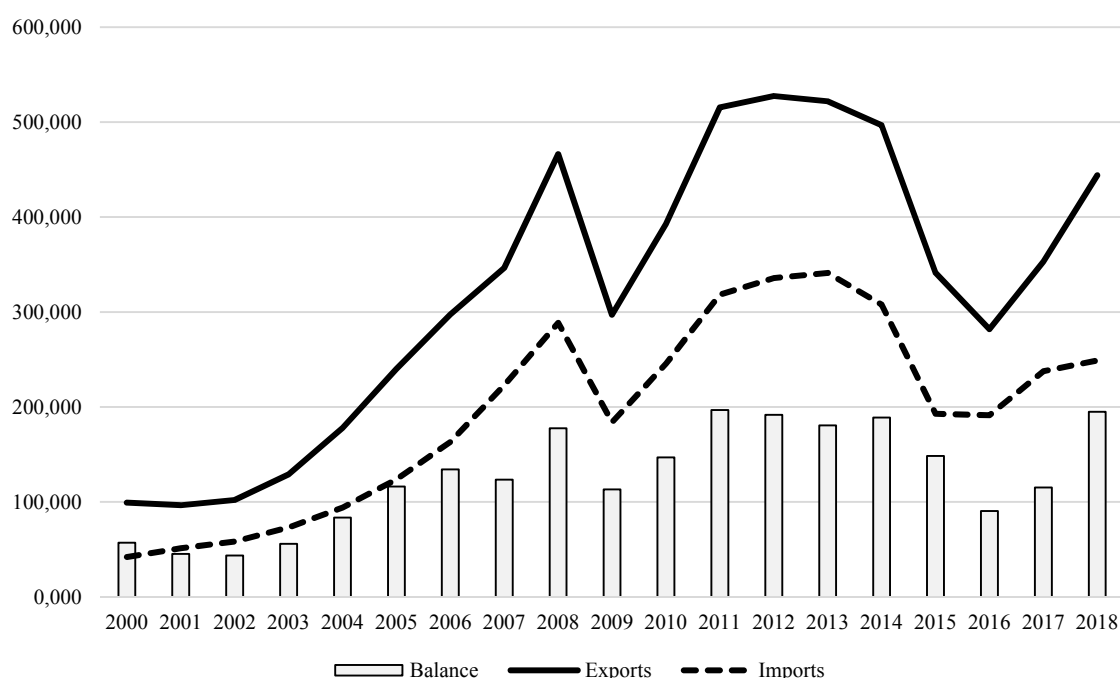


Fig. 34. The main parameters of Russia's foreign trade (billion US dollars)

Source: The Central Bank of the Russian Federation.

The positive dynamics of Russian exports can largely be explained by the pricing factor: in Q2 the index of average export prices and the index of the volume of exports amounted to 118.5 percent and 106.5 percent, respectively, while in Q3, to 124.2 percent and 102.5 percent, respectively. Growth in the value of imports was largely determined by the pricing factor, too: in Q2 2018 the index of average import prices and the index of the volume of imports to Russia were equal to 103.7 percent and 101.1 percent, respectively, while in Q3, to 99.9 percent and 99.0 percent, respectively (*Table 34*).

Table 34

The indices of average prices and the volume of Russia's exports and imports in 2018, % change on the relevant quarter of 2017.

FEA CN code	Commodity group name	Index of average prices						Index of volume					
		Exports			Imports			Exports			Imports		
		Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3
01-24	Food products and agricultural primary products	101.3	104.1	105.6	101.7	101.8	99.3	128.2	145.3	105.8	104.1	103.2	97.2
25-27	Mineral products	119.7	127.6	135.0	120.7	118.7	120.3	103.1	101.6	106.2	91.9	94.3	83.4
27	Fuel and energy commodities	120.0	127.9	135.5	111.9	108.6	113.1	102.7	102.1	106.0	91.0	100.4	95.0
28-40	Chemical products and raw rubber	106.9	107.6	107.8	107.2	105.2	103.8	107.3	102.5	107.9	106.5	103.3	96.6
41-43	Rawhide, furs and fur articles	83.2	83.2	73.5	99.6	112.1	94.2	140.9	119.8	92.3	100.3	84.5	137.0
44-49	Wood and pulp and paper products	120.6	120.3	127.7	109.6	104.9	107.0	88.9	99.1	97.6	103.3	100.5	98.5
50-67	Textile, textile products and footwear	106.0	99.6	99.1	107.6	105.8	100.2	107.9	92.9	103.6	115.5	95.8	110.7
72-83	Metals and metal fabricated articles	115.0	114.1	111.1	109.3	108.3	104.4	113.6	116.0	107.3	116.5	94.6	93.6
84-90	Machines, equipment and transport vehicles	81.3	87.3	91.2	104.1	102.3	99.3	101.2	120.5	109.7	111.0	101.5	96.8
68-70, 91-97	Other commodities	104.1	98.1	103.3	104.1	98.5	82.4	99.8	114.4	86.0	99.3	108.6	131.5

Source: the data of the Federal Customs Service

The Pattern and Dynamics of Exports

In 2018, the value of exports increased by 25.6 percent to USD 444.0 billion as compared to 2017. Export supplies to far abroad countries and the CIS rose by 27.8 percent and 12.3 percent, respectively. In the overall volume of exports, the unit weight of far abroad countries increased to 87.3 percent against 85.8 percent in 2017 (Table 35).

Table 35

Dynamics of Russian exports

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Exports, billion USD	354.4	466.3	297.2	392.7	515.4	527.4	521.8	496.8	341.4	281.7	353.5	444,0
including												
Far abroad countries	294.8	397.7	252.0	333.6	436.7	443.8	443.8	428.1	292.1	241.7	303.4	387,7
Growth rates, % change on previous year												
Index of volume of exports	104.7	105.8	105.0	96.8	97.0	110.0	97.8	99.9	104.9	109.0	103.6	102,5
Index of prices	126.9	119.7	110.9	137.4	76.4	119.8	132.9	101.6	95.7	58.1	120.7	124,2

Source: The Central Bank of the Russian Federation and the RF Ministry of Economic Development.

The main factor behind high growth rates of exports is appreciation of prices of hydrocarbons. In 2018, the average contract price of crude oil, petrochemicals and

natural gas appreciated by 34.3 percent, 32.6 percent and 22.8 percent, respectively, relative to 2017.

The value of exports of Russian oil increased by 38.3 percent in 2018 as compared to 2017 with growth of 3 percent in the volume of export supplies to 260,171 million tons.

In addition, according to the data of the Federal Customs Service the volume of the Russian exports of liquefied natural gas rose by 50.4 percent to 36.7 million cubic meters as compared to 2017. The volume of exports of natural gas increased by 4.9 percent to 220.6 billion cubic meters. In 2018, the revenues from liquefied natural gas rose by 66.6 percent to USD 5.3 billion, while the revenues from sale of natural gas, by 28.8 percent to USD 49.1 billion.

As a result, in 2018 in the commodity pattern of exports the share of fuel and energy commodities increased by 4.5 p.p. as compared to the previous year. There was a decrease in shares of food products (from 5.8 percent to 5.5 percent), chemical products (from 6.7 percent to 6.1 percent), wood and pulp and paper articles (3.3 percent to 3.1 percent), metals and metal fabricated articles (from 10.4 percent to 9.9 percent) and machines, equipment and transportation vehicles (from 7.9 percent to 6.5 percent) (Fig. 35).

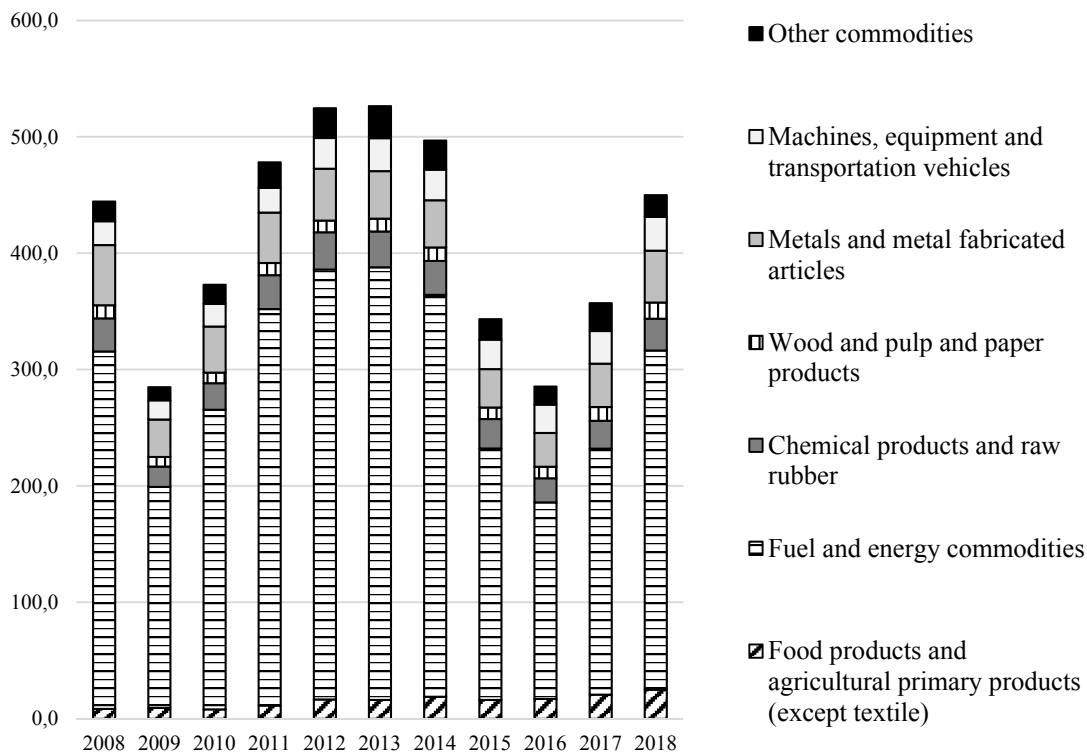


Fig. 35. The Commodity dynamics of Russian exports (billion USD)

Source: The Federal Customs Service.

According to the data of the Russian Export Center¹, in 2018 Russia's exports of non-primary and non-energy commodities amounted to USD 149.4 billion, having surpassed the historic record of 2012 (USD 143.5 billion). The growth rates happened to be lower than a year before (11.6 percent). In 2017, the exports of non-primary and non-energy commodities increased by 22.5 percent mainly on the back of the effect of the low base of 2016. In 2018, growth was facilitated by expansion of the volume of supplies and appreciation of global prices. There were high growth rates of exports of nonfood agricultural products (+25 percent), timber (+18 percent), food products (+20.2 percent) and metal products (+19.4 percent).

In 2018, Russia kept stepping up exports of food products and agricultural primary products. In 2018 the volume of food exports amounted to USD 24.9 billion, a record-high level within the entire period of observations. The main drivers of growth in exports of food products were the increase in domestic production, a favorable USD/RUB exchange rate and decrease in households' purchasing power. As a result, the domestic market of most food products shrank.

Traditionally, in the pattern of the Russian exports of food products the leaders are cereals (42.1 percent in 2018). In 2018, the volume of exports of wheat and meslin rose by 33.1 percent, while the value thereof, by 45.6 percent.

The Foreign Agricultural Service of the US Agricultural Department² has revised upwards the forecast of Russian export wheat supplies from 35 million tons to 36.5 million tons in the 2018/19 season. The Russian Federation will remain the world's leader as regards wheat exports followed by the US (29 million ton) and Canada (24 million tons). Russian wheat dominated on the global market for several years thanks to high reserves and price advantages. From July till October, monthly shipments of wheat were higher than in the previous year, however, with winter coming they slowed down. According to the updated information of the Federal Customs Service, from the beginning of the season till December 13 Russia exported 25.4 million tons of grain, an increase of the mere 4 percent as compared to the previous season. Particularly, shipments of wheat increased by 13 percent to 21.8 million tons, while those of barley and maize decreased by 13.5 percent to 2.8 million tons and twofold to 1 million ton, respectively. So, in December exports of wheat fell to 0.5–0.7 million tons a week against 1 million tons in October – the beginning of November. The second largest position in the Russian food exports is occupied by fish and seafood (17.4 percent); in 2018 the value of their exports amounted to USD 2.9 billion, an increase of 22.6 percent as compared to the index of 2017.

The third place in the Russian food exports is retained by the supplies of animal and vegetable fats and oil (10.5 percent), which exports fell by 1.5 percent to USD 2.6 billion in 2018 relative to 2017.

¹ URL: [https://www.exportcenter.ru/upload/iblock/6f1/Экспорт%20России%202018_12%20\(reference\).pdf](https://www.exportcenter.ru/upload/iblock/6f1/Экспорт%20России%202018_12%20(reference).pdf)

² Grain: World Markets and Trade. URL: <https://apps.fas.usda.gov/psdonline/circulars/grain.pdf>

There was growth in the exports of meat and meat by-products (28.7 percent), edible fruits and nuts (10 percent), products of the flour and cereals industry (14.1 percent), vegetable, fruits, nuts and plants products (16.5 percent) and alcoholic and non-alcoholic beverages (12.5 percent).

In 2018, the exports of the timber industry's products attained the record-high level of USD 13.9 billion. At the same time, there are some changes in the pattern of the timber industry's exports: the share of exports of unprocessed timber keeps falling; within ten years it decreased from 22 percent to 8 percent. The exports are retargeting at products with a higher added value. In 2018, the volume of exports of processed timber, glued ply wood, pulp wood and newsprint paper rose by 6.8 percent, 8.5 percent, 0.5 percent and 1.4 percent, respectively.

The exports of machines and equipment increased by 3.5 percent. This happened on the back of growth of 15.7 percent in export sales of those products to CIS countries. Exports of machines and equipment to far abroad countries fell by 2.8 percent.

The Pattern and Dynamics of Imports

In 2018 the Russian imports increased by 4.6 percent to USD 249.1 billion as compared to 2017. The value of imports from far abroad countries amounted to USD 222.5 billion, an increase of 4.6 percent as compared to the index of 2017, while that of imports from CIS countries to Russia was equal to USD 26.5 billion, an increase of 4.7 percent relative to the index of 2017. In the total volume of imports, the unit weight of far abroad countries remained at the level of the previous year (89.3 percent) (*Table 36*).

Table 36

Dynamics of Russian imports (billion USD)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Imports, billion USD	223.1	288.7	183.9	245.7	318.6	335.8	341.3	307.9	193	191.5	238.1	249.1
Including												
Far abroad countries	194.1	253.8	162.7	213.2	273.8	288.4	295.0	271.9	170.6	170.8	212.8	222.5
Growth rates, % change on previous year												
Index of volume of imports	122.4	130.1	127.1	113.5	63.3	135.4	122.2	105.1	97.8	96.6	116.7	99.0
Index of prices	106.5	105.5	107.6	117.8	99.1	101.6	109.1	97.3	102.5	99.8	106.6	99.9

Source: The Central Bank of the Russian Federation and the RF Ministry of Economic Development.

Amid the depreciation of the rouble, weakening of business activities in the industry and fading of the effect of the low base in Russia, after two years of uninterrupted growth in Q2 2018 imports of goods slowed down, while in Q3 2018 they started to shrink. If in January 2018, imports of goods to the Russian Federation increased by 20.4 percent year on year, in July they grew by the mere 0.9 percent, while in August, September and December they fell by 3.5 percent, 2.9 percent and 6.8 percent, respectively. On the one side, imports were underpinned by continuous moderate growth in domestic demand. On the other hand, they were restrained by depreciation of the rouble's real effective exchange rate which in Q2 2018 weakened by 11 percent as compared to the relevant period of 2017 (a 6.5 percent depreciation in Q3 2018). Generally, within a year the real

effective exchange rate of the rouble in the basket of foreign currencies of the main trade partners of Russia decreased by 6.9 percent in 2018.

The dynamics of imports across different types of commodities was not homogeneous. So, in 2018 the volume of imports of fresh and frozen meat decreased by 36.4 percent to 409,200 tons as compared to 2017. The volume of poultry supplies fell by 2.5 percent to 221,700 tons. Also, Russia started to import less fish, a decrease of 5 percent (407,200 tons).

Imports of citrus fruits increased the most (9.3 percent) followed by bananas and apples. Also, there was growth in imports of coffee (+5 percent), cacao beans (+2 percent) and cacao-containing products (+22.6 percent).

The share of import food products on the domestic market fell from 36 percent in 2013 to 22 percent in 2018.

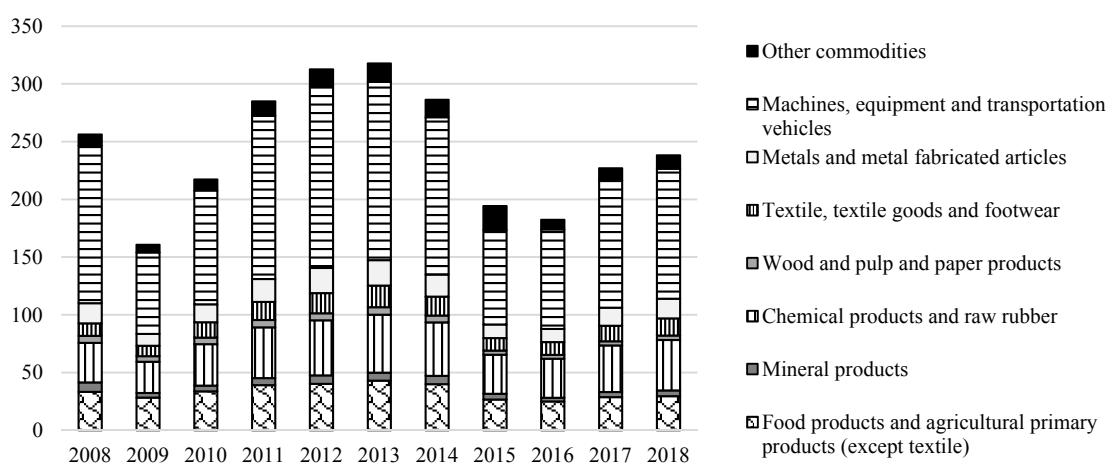


Fig. 36. The Commodity dynamics of Russian imports (January-October, billion USD).

Source: The Federal Customs Service.

In the commodity pattern of imports, machines and equipment still have the highest unit weight; in 2018 it was equal to 47.3 percent (48.6 percent in January-October 2017). In 2018, purchases of machines and equipment increased by 2.1 percent, including electrical equipment (15.5 percent) and instruments and optical device (9.6 percent) as compared to 2017.

The value of imports of chemical products increased by 8.2 percent as compared to 2017, while the volume of imports, by 1.0%. There was growth in the volume of the imports of soap and detergents (8.2 percent), raw rubber, rubber and rubber articles (6.5 percent), plastics and plastic articles (3.0 percent) and organic chemical products (0.2 percent).

The value of imports of metals and fabricated metal articles increased by 9.1 percent as compared to 2017. The volumes of imports of ferrous metals and articles made thereof

rose by 5.7 percent with import supplies of pipes and flat rolled iron and unalloyed steel products falling by 21.6 percent and 3.3 percent respectively.

4.6.4. The geographic pattern of Russia's foreign trade

In the geographic pattern of Russia's foreign trade, the role of the APEC keeps growing in the Russian foreign trade volume: in 2018 it increased up to 31 percent against 30.4 percent in 2017. It is to be noted that the share of the EU increased from 42.1 percent to 42.7 percent. The share of the CIS states keeps falling: from 12.5 percent in 2017 to 11.7 percent in 2018. It is noteworthy that the share of Russia's mutual trade turnover with its partners in the Eurasian Economic Union is shrinking: the Republic of Belarus (from 5.2 percent to 4.9 percent) and Kazakhstan (from 3 percent to 2.6 percent (*Fig. 37*)).

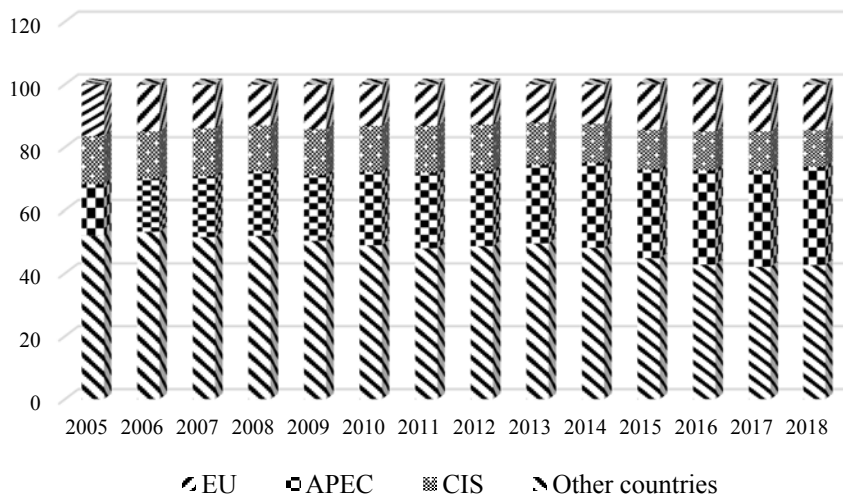


Fig. 37. The Geographic Pattern of Russian Foreign Trade (%)

Source: The Federal Customs Service of the Russian Federation.

The European Union is still the main trade partner of the Russian Federation. In 2018, Russia's trade turnover with the EU increased by 17.6 percent with growth both in the value of Russian exports (25.8%) and Russian imports (4.7 percent). It is to be noted that growth in Russian foreign trade volume was observed with all countries of the EU, except Latvia.

Russia's foreign trade volume with the APEC increased by 19.8 percent. In particular, there was growth in the foreign trade volume with China (24.5 percent), Vietnam (16.4 percent), Australia (28.7 percent) and the US (7.9 percent).

Russia's foreign trade turnover with CIS states increased by 10.7 percent. Trade links with all the CIS countries recovered, except for Azerbaijan (the trade turnover with that country shrank by 5.4 percent).

China has been Russia’s main trade partner since 2010; in 2018 its share in Russia’s foreign trade turnover increased up to 15.7 percent (14.9 percent in 2017). It is to be noted that for the first time since 2013 the Russian Federation has had a positive trade balance of USD 3,847.5 billion (in January-October 2017 it was negative (USD 9,137.3 billion)

4.6.5. Regulation of the Russian Foreign Trade¹

Tariff Regulation

Export customs duties

In 2018, the rates of export duties on oil and petrochemicals were calculated in compliance with the methods approved by Resolution No.276 “On Calculation of the Rates of Export Customs Duties on Crude Oil and Individual Categories of Oil-Produced Products”.

The methods of calculation of export duties on oil were amended by Resolution No.1523 of December 14, 2018 of the Government of the Russian Federation “On Amendment of Some Documents of the Government of the Russian Federation”. As a result, from January 1, 2019 oil export duties were reduced by 33.4 percent to USD 89 per ton. With completion of the tax maneuver in the oil industry in 2019 – 2024, oil export duties will not be set to nil with a simultaneous severance tax increase (*Table 37*).

Table 37

The rates of export duties on oil and petrochemicals in 2018 (USD per ton)

	Oil	Petrochemicals	
		Light petrochemicals	Dark petrochemicals
January 1	111.4	33.4	111.4
February 1	120.1	36.0	120.1
March 1	119.5	35.8	119.5
April 1	111.4	33.4	111.4
May 1	118.5	35.5	118.5
June 1	131.8	39.5	131.8
July 1	139.1	41.7	139.1
August 1	135.4	40.6	135.1
September 1	130.0	39.0	130.0
October 1	137.5	41.2	137.5
November 1	152.0	45.6	152.0
December 1	135.1	40.5	135.1
2019			
January 1	89.0	26.7	89.0

Source: Resolutions of the Government of the Russian Federation, the data of the RF Ministry of Economic Development.

Import customs duties

In compliance with Resolution No.13 of January 26, 2018 of the Council of the Eurasian Economic Commission “On Setting of Import Customs Duties of the Single Customs Tariff of the Eurasian Economic Union in Respect of Individual Types of Goods in Compliance with the Obligations of the Russian Federation within the

¹ In preparing this section, the data of the GARANT.RU, an information and legal Web-site, were used.

Frameworks of the WTO”, import customs duties were changed in respect of linoleum, refrigerators, vehicle bodies, dump trucks and car semitrailers. As regards linoleum, the rate of 10 percent, plus euro 0.08 per 1 kg was set. Earlier, it was 10 percent, but no less than euro 0.25 per 1kg. As regards household refrigerators, household freezers and vehicle bodies (cabins) meant primarily for transportation of people, import customs duties are now equal to 15 percent. The rates on off-the-road dump trucks with maximum two shafts is equal to 5 percent (earlier – 5 percent, but minimum euro 0.5 per 1 cm³ of the engine volume). The rate of 9 percent was set for car semitrailers with the full weight of 15 tons and overall length of minimum 13.6 mm as well as car refrigerator semitrailers with the body’s interior volume of minimum 76 m³.

To reduce the cost of production of Russian products, import customs duties on individual types of import products used in manufacturing of Russian products were reduced. It concerns import supplies of polyethylen for manufacturing of large diameter pipes which are used for building the Nord Stream-2 and the Turkish Stream. By Resolution No.14 of January 26, 2018 of the Council of the Eurasian Economic Commission “On Setting of the Import Customs Duty of the Single Customs Tariff of the Eurasian Economic Union on Polyethylen for Applying Industrial Three-Layer Anti-Corrosion Finish on Large Diameter Pipes” the zero import customs duty on polyethylen was extended for the period of nine months.

By Resolution No.65 of July 13, 2018 of the Council of the Eurasian Economic Commission “On Amendment the Unified Trade Classification of Foreign Economic Activities of the Eurasian Economic Union and Single Customs Tariff of the Eurasian Economic Union in Respect of Individual Types of Transformers for Microwave Ovens, as Well as Some Resolutions of the Supreme Eurasian Economic Council and the Council of the Eurasian Economic Commission”, import customs duties were reduced in respect of some types of transformers for microwave ovens. The zero import customs duty rate on transformers for microwave ovens with power voltage of 220–240 V and output voltage of the main winding and auxiliary winding being 2.1–2.4 kV and 3.2–37 V, respectively, was temporarily set. The zero customs duty rates will be in effect till December 31, 2020 included. Earlier, the rate of 8 percent of the customs value used to be charged from the imports of the specified goods. The reduction of the import customs duty rate will make it feasible to reduce the cost of manufacturing of microwave ovens at enterprises of the Eurasian Economic Union.

By Resolution No.146 of September 7, 2018 of the Collegium of the Eurasian Economic Commission “On Setting of the Rates of Import Customs Duties of the Single Customs Tariff of the Eurasian Economic Union in Respect of Down and Fur Raw Stuff and Tanned and Dressed Fur Skins (Except for Mink Raw Stuff and Skins)”, import customs duty rates on down and fur raw stuff and tanned and dressed fur skins (except for mink raw stuff and skins) were reduced from 3 percent and 5 percent to 0 percent of the customs value. The zero rates will be in effect till September 30, 2020 included. The measure in question is meant to promote production of natural fur articles in the EEU.

By Resolution No. 94 of June 5, 2018 of the Collegium of the Eurasian Economic Commission “On Setting of the Rates of Import Customs Duties of the Single Customs Tariff of the Eurasian Economic Union in Respect of Individual Types of Goods in Compliance with Obligations of the Russian Federation Within the Frameworks of the WTO and Amendment of Some Decisions of the Eurasian Economic Commission”, import customs duty rates were reduced in respect of some goods. In particular, it concerns fireworks, gunpowder and individual types of mattress frames. The duty rates were reduced by 1–2 p.p. The periods of application of zero rates of customs duties, particularly, in respect of gold, platinum, components of lock gears for manufacturing of locomotive-driven double-deck coaches and some types of grapes were specified.

By Resolution No. 99 of June 13, 2018 of the Collegium of the Eurasian Economic Commission “On Setting of the Rates of Import Customs Duties of the Single Customs Tariff of the Eurasian Economic Union in Respect of Industrial Fatty Alcohols “, import customs duties were reduced to 0 percent in respect of industrial fatty alcohols. The zero rates are applied from September 02, 2018 till August 31, 2021 included. Earlier, the rate of import duties on the specified goods was equal to 5 percent of the customs value.

By Resolution No. 98 of June 13, 2018 of the Collegium of the Eurasian Economic Commission “On Setting of the Rates of Import Customs Duties of the Single Customs Tariff of the Eurasian Economic Union in Respect of Shelled Cashew Nuts”, from September 2, 2018 till August 31, 2021 included a zero rate of import customs duties is set in respect of cashew nuts. Earlier, the rate of import duties on the commodity in question was equal to 5 percent of the customs value.

By Resolution No. 737 of June 27, 2018 of the Government of the Russian Federation “On Amendment of Export Customs Duties on Goods Exported from the Russian Federation beyond the Borders of Member-States of the Agreement on the Customs Union”, a zero export customs duty on wheat was extended for a year till July 1, 2019.

Within the frameworks of fulfillment of the obligations assumed by the Russian Federation when it joined the WTO, the Council of the Eurasian Economic Commission (EEC) modified the procedure for applying the rates of import duties in respect of cars and some other goods. By Resolution No. 66 of July 13, 2018 of the Council of the Eurasian Economic Commission, the procedure for applying the rates of import duties was specified in respect of individual types of goods, including military cargo planes equipped with a loading ramp and the weight of empty outfit of over 12000 kg, but maximum 13000 kg; aluminum; polyethylen for applying industrial three-layer anti-corrosion finish on large diameter pipes; and some types of machinery products. Reduced rates were introduced in respect of some items.

Duty rates were reduced in respect of rattan furniture and furniture parts made of metal and wood.

In respect of all-terrain cars with the effective engine cylinder capacity of over 4200 cubic cm, the ad val. rate of 10 percent of the customs value was introduced. It is to be noted that from September 1, 2018 till August 31, 2019 included either the duty rate of

17 percent or the rate of 12.1 percent of the customs value are applied, but no less than euro 1.14 per 1 cubic cm of the engine volume depending on which calculated amount is lower.

A similar rate is applied in respect of the specified cars with a combustion engine capacity higher than the maximum 30 minute capacity of the electric motor. The rates of duties were changed in respect of other car positions.

By Resolution No. 129 of August 21, 2018 of the Collegium of the Eurasian Economic Commission “On Setting of the Rates of Import Customs Duties of the Single Customs Tariff of the Eurasian Economic Union in Respect of Individual Types of Equipment for Fish Breeding”, a zero rate of import customs duty will be applied till December 31 2019 included in respect of individual types of equipment for fish breeding. It concerns sea-floating crafts meant for fish feeding which are equipped with feeding device and supply bins with cargo capacity of minimum 155 cubic meters for fishfood storage. Also, it is round fish-breeding cages with the core diameter of 20-50m. Before amendments were introduced, imports of the specified goods were charged at the rate of 10 percent and 15 percent of the customs value, respectively.

By Resolution No.187 of November 20, 2018 of the Collegium of the Eurasian Economic Commission “On Setting of the Rates of Import Customs Duties of the Single Customs Tariff of the Eurasian Economic Union in Respect of Individual Types of Electrodes”, a zero rate of import duties was introduced in respect of electrodes for metallurgical furnaces to support processers of waste and ferrous and nonferrous scrap.

Tariff quotas

By Resolution No. 1524 of December 14, 2018 of the Government of the Russian Federation “On Distribution of the Volumes of Tariff Quotas in Respect of Cattle, Pork and Poultry Meat in 2019”, the volumes of tariff quotas set for 2019 for Russia in respect of pork, beef and poultry were distributed between supplier-countries with international agreements taken into account. The mechanism of distribution of tariff quotas of Costa-Rica and other countries between foreign trade participants was spelled out. From December 20, 2018 till December 31, 2019 included, the Ministry of Industry and Trade will be issuing licenses to foreign trade participants for imports of beef, pork, pork trimming and parts of poultry carcasses within the limits of tariff quota volumes.

In accordance with Resolution No.1521 of December 12, 2017 of the Government of the Russian Federation, from January 1, 2018 reduced export duties of 6.5 percent of the customs value (minimum euro 4 per 1 m³) were introduced in respect of Yezo spruce timber, East Siberian fir and Dahurian larch. The rates are applied to exports of the specified commodities within the frameworks of the tariff quota provided that relevant licenses were issued. In case of exports beyond the quota for 2018, the export customs duty which used to be in effect before is applied (25 percent of the customs value, but no less than euro 15 per 1 m³). From January 1, 2019, it is to be gradually increased to 80 percent in 2021. The measure in question is meant to create new timber processing capacities in the Far East.

In accordance with Resolution No.836 of July 17, 2018 of the Government of the Russian Federation “On Introduction of the Temporary Quantitative Limitation on Exports of Birch Timber Beyond the Territory of the Russian Federation to Countries which are Not Member-States of the Eurasian Economic Union”, from January 1 till June 30, 2019 quantitative limitations (quotas) were introduced on exports of birch timber from Russia to countries which are not member-states of the Eurasian Economic Union. The quotas are applied to birch timber with the minimum cross-section diameter of minimum 15 cm and length of minimum 1 m. In the period of from January 1 till June 30 2019, it is allowed to export 567,000 cubic meters of round birch timber.

Non-Tariff Regulation

On November 22, 2018 the WTO issued the 18th Report on the G20’s Trade Measures¹ implemented by the G20 countries in the period of May 16 – October 15, 2018. Also, the Report dealt with important trends in the current global trade policy. In the period under review, there was still dramatic escalation of the protectionist rhetoric and trade tensions which factors were specified in the previous report on G20’s trade measures. Though the G20 countries kept facilitating development of trade, the data pointed to substantial growth in the number of protectionist measures.

In the period under review, the G20 countries applied 40 new protectionist measures in trade, including tariff hikes, bans on imports of some products and introduction of export charges. This is equal on average to eight protectionist measures per month. In the period under review, the measures on limitation of imports affected USD 480 billion worth of the international trade per year, an increase of 500 percent on the relevant index of the previous year (from the mid-October 2017 till the mid-May 2018) and the highest one since the release of the first Report in 2012.

The initiation of anti-dumping investigations is still the most wide-spread means of legal protection of domestic markets in the G20 countries; they account for nearly three-fourth of all the measures introduced. In the period under review, the main sectors affected by the anti-dumping measures were “Iron and Steel” (HS 72) and “Articles Made of Iron and Steel” (HS 73). Aggregately, they account for over 40 percent of the initiated anti-dumping investigations. The other sectors – “Furniture, Bedding Items and Mattresses” (HS 94) and “Electric Machines and Their Components” (HS 85) – accounted for 31.9 percent and 14.6 percent, respectively.

In January-June 2018, the number of anti-dumping investigations initiated by G20 member-states increased by 23% as compared to the previous six month period (July-December 2017), that is, growth from 90 to 111 anti-dumping investigations. In H1 2018, the highest number of anti-dumping investigations were initiated by India (28 anti-dumping investigations), the US (22), Argentina (14) and Australia (11). Most anti-dumping measures are aimed against Chinese goods.

¹ The official Web-site of the World Trade Organization. URL: https://www.wto.org/english/news_e/news18_e/trdev_22nov18_e.htm

The G20 countries actively present their notifications to the WTO Committee on Sanitary and Phytosanitary Measures; they account for 67 percent of all the regular notifications starting from 1995. They are mostly notifications as regards changes in the safety standards applied to food products. In the period of May 1 – September 30, 2018, the largest number of notifications to the WTO was presented by Brazil, Canada, the US and Japan; they aggregately accounted for 47 percent of the notifications submitted by the G20 countries in that period.

Also, the G20 countries submit more often to the WTO Committee on Technical Barriers in Trade notifications as regards technical barriers imposed in trade (TBT). Aggregately, they have presented nearly a half of all the notification on TBT since 1995. The rules adopted by the G20 countries have accounted for most measures (about 80 percent) discussed at the Committee on TBT since 1995. The G20 countries submitted 276 new regular notifications on TBT measures (nearly 30 percent) out of 949 measures submitted to the Committee on TBT by all WTO member-states from May 1 till September 30, 2018. Most new notifications were received from Saudi Arabia (41 notifications), the European Union (36), the United States (35), Brazil (32) and Mexico (28). Most new regular notifications were aimed at protection of health and safety of people and the environment. Other notifications dealt with the information for consumers, marking, prevention of fraud, protection of consumers and quality requirements.

The G20 countries implemented 33 measures aimed at simplifying the trade, including removal and reduction of import tariffs and export duties. The value of the turnover of goods in respect of which those measures were aimed at was equal to USD 216 billion.

Participants in the G20 meeting which was held in Argentina on November 30 – December 1, 2018 spoke in favor of the reduction of barriers in the international trade. An important point of the final declaration of the G20 Summit in Argentina was the statement on the need of reforms to be carried out in the WTO. The document reads that the international trade and investments are important drivers of growth, efficiency, innovations, creation of new jobs and development. “We recognize the contribution to international trade systems. At present, it fails to achieve its goals and there is room for upgrading. In this context, we support the reforming of the WTO”, the document states¹.

With each year, protectionism against Russian goods is gaining momentum. According to the data presented in the Register of Restrictive Measures², as of December 1, 2018 170 measures which limited Russian goods’ access to foreign markets were identified. It is mainly anti-dumping duties which accounted for 28.2 percent of the total number of measures introduced with sanitary and phytosanitary measures (SPS – measures) and special protective duties accounting for 18.2 percent and 12.4 percent, respectively (*Table. 38*).

¹ G20 Leaders’ declaration. Building consensus for fair and sustainable development. // https://g20.org/sites/default/files/buenos_aires_leaders_declaration.pdf

²URL: <http://www.ved.gov.ru/mdb/information/database/>

Table 38

The market protection measures taken by third parties in respect of Russian goods

Restrictive measures	2014	2015	2016	2017	2018
Anti-dumping duties	40	39	40	43	48
Special protective duties	9	15	17	13	21
Compensation duty	-	1	1	1	1
TBT measures	9	9	10	15	14
SPS measures	3	7	11	17	31
Quotas (including tariff quotas)	2	3	3	3	6
Excises imposed on discriminatory basis	5	4	5	7	5
Bans on imports	4	3	4	6	8
Threats of measures to be taken	5	5	5	8	7
Other non-tariff measures	25	24	29	30	29
TOTAL	102	110	125	143	170

Source: The Register of Restrictive Measures as of December 1 of the relevant year.

Within the frameworks of the policy of sanctions carried out by the European Union, Japan, Ukraine, Switzerland, Norway, Australia, Iceland, Liechtenstein, Montenegro and Albania, the above countries introduced a ban on imports of goods from Crimea and the city of Sevastopol. Also, in connection with the developments in Crimea and in the East of Ukraine, sanctions were introduced against some Russian organizations and individuals by the EU, the US, Canada, Japan, Ukraine, Switzerland, Norway, Australia, New Zealand, Iceland, Liechtenstein, Montenegro and Albania.

Measures of Domestic Market Protection

Application of protection measures in the Eurasian Economic Union is regulated by Articles 48–50 of the Agreement on the Eurasian Economic Union of May 29, 2014 (Annex No.8 to the Agreement on the Eurasian Economic Union). At present, the EEU maintains 16 domestic market protection measures (Table. 39).

Table 39

Domestic market protection measures which are in effect in the EEU

No.	Commodity	Type of measure	Exporter–country
AD-1	Some types of steel pipes	Anti-dumping	Ukraine
AD-8	Rolled metal products with polymer coating	Anti-dumping	China
AD-11	Cold-deformed weldless stainless steel pipes	Anti-dumping	China, Malaysia
AD-7	Steel wrought cuts for rolling mills	Anti-dumping	Ukraine
AD-15	citric acid	Anti-dumping	China
AD-14	Anticorrosion steel kitchen and tableware	Anti-dumping	China
AD-16	Steel seamless pipes used for drilling and operation of oil and gas wells	Anti-dumping	China
AD-17	Tracked bulldozers	Anti-dumping	China
AD-18	Truck tyres	Anti-dumping	China
AD-19	Steel wrought wheels	Anti-dumping	Ukraine
AD-21	Stainless steel pipes	Anti-dumping	Ukraine
AD-13	Wire rods	Anti-dumping	Ukraine
AD-20	Ferrosilicon manganese	Anti-dumping	Ukraine
AD-22	Angle iron	Anti-dumping	Ukraine
AD-3	Rolling bearings	Anti-dumping	China
AD-9	Graphitized electrodes	Anti-dumping	India

Source: URL: <http://www.eurasiancommission.org/ru/act/trade/podm/mery/Pages/default.aspx>

Technical Regulation

On August 3, 2018 Federal Law No.281-FZ “On Ratification of the Agreement on Marking of Goods by Identification Means in the Eurasian Economic Union” was approved. The Agreement in question was signed in Almaty on February 2, 2018. The Agreement specifies the general procedure for marking goods within the limits of the Eurasian Economic Union. The authorities as regards formation of the unified system of goods marking within the limits of the Eurasian Economic Union were distributed between the Eurasian Economic Commission and the member-states of the Eurasian Economic Union. It is envisaged to utilize unified identification marks, maintain the single register of identification means and form an integrated information system of goods marking. The mandatory stages of submission of the data on goods to the information system of goods marking were determined. The notification procedure for introducing the mandatory marking of goods both in the territory of the Eurasian Economic Union and the territory of individual member-states of the EEU was established. In case of initiation by other member-states of proposals on introduction in the territory of the EEU of mandatory markings in respect of individual goods, they can be introduced in the territory of the Russian Federation (provided that the initiative was supported by the Russian side), as well.

Bans and Limitations on Imports

On March 23, 2018, the US introduced limitations in terms of increased duties on imports of ferrous metal products (an increase of up to 25 percent) and aluminum (up to 10 percent) from Russia. In response to those unfriendly measures, by Resolution No.788 of July 6, 2018 of the Government of the Russian Federation “On Approval of the Rates of Import Customs Duties in Respect of Individual Goods Whose Country of Origin is the United States of America” the rates of import customs duties were increased in respect of individual goods whose country of origin was the US. It concerns individual types of transportation vehicles for cargo carriage, building and road equipment, oil and gas equipment, metal processing equipment, solid rock drilling equipment and fiber optics (an import duty rate increase of 25 -40 percent).

By Resolution No.1017 of August 28, 2018 of the Government of the Russian Federation “On Amendment of Resolution No.774 of July 31, 2015” the procedure for liquidation of sanctioned products was actualized. The period of counter-sanctions was extended till December 31, 2019. In this context, the procedure for liquidation of individual types of imported agricultural products, raw materials and food products whose country of origin were the US, the EU, Canada, Australia, Norway, Ukraine, Albania, Montenegro, Iceland and Liechtenstein was specified.

Limitations on Imports of Goods for Personal Use

By Resolution No.107 of December 20, 2017 of the Eurasian Economic Commission “On Individual Issues Related to Goods for Personal Use”, new customs limits were set for bringing in goods in luggage and by mail or delivery service. The value, weight and

quantity of goods which could be brought for personal use into the customs territory of the Eurasian Economic Union without payment of customs duties and charges were determined. The amounts of the duties for exceeding the established limits were specified. The list of previously used goods which foreign nationals could bring in the Eurasian Economic Union for the period of their stay in the territory of the Eurasian Economic Union without paying customs duties (regardless of the value and (or) weight) and the list of the categories of goods which are not attributed to goods for personal use were released.

In 2018, one could bring in the country maximum euro 1,500 worth of goods with the weight of up to 50 kg. From January 1, 2019, the value of goods is limited to the equivalent of euro 1,000. From January 1, 2020 the limitation of the value and weight by euro 750 and 35 kg, respectively, will be applied, while from January 1, 2021 it is admissible to bring in maximum euro 500 worth of goods with weight of maximum 25 kg.

The above rules do not concern goods brought into the territory of the Eurasian Economic Union in the accompanied luggage by air. In this case, the maximum value and weight of the purchase are limited to euro 10,000 and maximum 50 kg,

Also, the limits on the value and weight of goods which are delivered by international mail and postal carriers will be gradually reduced: from January 1, 2018, the limit of euro 1,000 and 31 kg within a calendar month was introduced, while from January 1, 2019 it is to be euro 500 and 31 kg.

The value of duties for the excess of the limits is being reduced. In 2018–2019, it is necessary to pay 30 percent of the value, but minimum euro 4 per 1 kg of weight in case of excess of the value and (or) weight limit. In 2020, the duty will be equal to 15 percent of the value, but minimum euro 2 per 1 kg of the excess weight.

4.7. The use by Russia of the WTO dispute settlement mechanisms¹

4.7.1. Trade disputes handled by the WTO that Russia has been a party to (complainant or respondent)

The Russian Federation acceded to the World Trade Organization (WTO), and so became subject to its international trade dispute settlement procedures, on August 22, 2012. The mechanism was adopted by the WTO under the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU)². Thus, from August 2012 onwards, Russia has enjoyed the right to defend its trade interests by applying this

¹ This section was written by: M. Baeva, RANEPА, RFTA of the RF Ministry of Economic Development; A. Knobel, Gaidar Institute, RANEPА, RFTA of the RF Ministry of Economic Development.

² URL: https://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm

particular instrument. The dispute settlement procedure applied by the WTO consists of five main successive stages:

- 1) *bilateral consultations* (within 60 days from the moment of filing a request for consultations);
- 2) *establishment of a panel* at the request of any of the parties to a dispute and appointment of panel experts to examine the facts of the case (within 45 days of the request to establish a panel);
- 3) *panel examination* (within 6–9 months after its establishment), presentation of its report to the Dispute Settlement Body (DSB), and issuance of recommendations by the DSB (approximately 60 days from the moment of report presentation by the panel);
- 4) *case examination by the Appellate Body (AB)*, if one of the parties chooses to appeal against the panel report (60–90 days from the moment of filing an appeal), adoption of the report by the Appellate Body of the DSB, and issuance by the DSB of its recommendation to the parties (30 days from the moment of presentation of the Appellate Body’s report);
- 5) *control, by the DSB*, of the implementation of its recommendations (not later than 15–18 months after the adoption by the DSB of the a report presented by a panel or the AB).

As of the year-end of 2018, Russia had been involved in a total of 81 disputes handled by the WTO: in 7 disputes as a complainant, in 9 disputes as a respondent, and in 65 disputes as a third party.

In 2018, Russia filed with the DSB a complaint against the USA introducing measures concerning steel and aluminum products (DS554). Another complaint was filed in 2018 against Russia by the USA in relation to raised tariffs on some imported goods manufactured in the USA (DS566).

In 2018, one dispute that Russia was a party to (respondent) was settled (DS479) (*Table 40*).

In the role of a third party, in 2018 Russia participated in 25 disputes. Some of the disputes where Russia acted as a third party have already been settled, and in several cases Russia derived indirect benefits from the WTO dispute settlement mechanism.

Table 40

Trade disputes brought to the WTO that Russia has been a party to (complainant or respondent)

Dispute	Claim	Current stage (as of year end 2018)
As complainant		
DS474: EU – Cost Adjustment Methodologies and Certain Anti-Dumping Measures on Imports from Russia (23.12.2013 ¹)	The EU used ‘cost adjustment’ methodologies in its anti-dumping investigations and reviews for calculating dumping margins, and while doing so, rejected the cost and price information of Russian producers and exporters. The EU investigated the terms for anti-dumping measures without considering the effect of such rejection of cost and price data on the determination of dumping margins and injury caused by dumped imports.	Appointment of panel experts (22.07.2014)

¹ The date in brackets is the date on which the Request for Consultations was received.

Dispute	Claim	Current stage (as of year end 2018)
DS476: EU – Certain Measures Relating to the Energy Sector (30.04.2014)	EU Third Energy Package: producers of natural gas are not allowed to own trunk lines situated in EU territory. The operators controlled by foreign persons must undergo special certification procedure.	Examination by Appellate Body (AB) (21.09.2018)
DS493: Ukraine – Anti-Dumping Measures on Ammonium Nitrate (07.05.2015)	While conducting anti-dumping investigations on imports of ammonium nitrate originating in Russia, Ukraine rejected the information of producers on electric energy prices in Russia, using instead price information from third countries (energy cost adjustments).	Examination by AB (23.08.2018)
DS494: EU – Cost Adjustment Methodologies and Certain Anti-Dumping Measures on Imports from Russia (07.05.2015)	While conducting anti-dumping investigations on imports of certain welded and seamless tubes and pipes and ammonium nitrate originating in Russia for calculation of dumping margins, the EU rejects the cost and price information of producers and exporters, using instead price information from third countries (energy cost adjustments).	Panel examination (17.12.2018)
DS521: EU – Anti-Dumping Measures on Certain Cold-Rolled Flat Steel Products from Russia (27.01.2017)	While conducting anti-dumping investigations, the EU rejects the cost and price information of Russian producers, relying instead on unsubstantiated data and incorrect calculations.	Consultations (27.01.2017)
DS525: Ukraine – Measures Relating to Trade in Goods and Services (19.05.2017)	Comprehensive request for consultations with respect to multiple restrictions, prohibitions, requirements and procedures adopted and maintained by Ukraine in respect of trade in goods and services originating in Russia.	Consultations (19.05.2017)
DS554: USA – Certain Measures on Steel and Aluminum Products (29.06.2018)	Russia claims that the USA introduced these measures in spring 2018 in violation of provisions of the GATT 1994 and the Agreement on Safeguards. In particular, the USA acted contrary to the WTO's MFN principle by granting to some countries certain advantages and treatments that were denied other countries, introduced restrictions on imports other than duties, taxes or other charges made effective through quotas, failed to properly substantiate its emergency action on imports of particular products, failed to give notice in writing to the exporters of relevant products, and failed to comply with any of the existing notification and consultation obligations.	Appointment of panel experts (21.11.2018)
As respondent		
DS462: Russia – Recycling Fee on Motor Vehicles (EU, 09.07.2013)	Russia imposed a charge ('recycling fee') on imported motor vehicles, while exempting domestic vehicles from that payment, under certain conditions. The 'recycling fee' steeply increases for certain categories of vehicles (new or second-hand ones).	Appointment of panel experts (25.11.2013)
DS463: Russia – Recycling Fee on Motor Vehicles (Japan, 24.07.2013)	Russia imposed additional charge ('recycling fee') on imported motor vehicles, while in actual practice exempting domestic vehicles from that payment, under certain conditions.	Consultations (24.07.2013)
DS475: Russia – Measures on the Importation of Live Pigs, Pork and Other Pig Products from the EU (EU, 08.04.2014)	The ban on imports of live pigs, pork and other pig products from the EU is a disproportional measure, introduced following several cases of ASF ¹ in wild boar near the border with Belarus, which were promptly controlled. The EU disputes the way Russia treats the regionalization measures against the spread of ASF.	Request for measures, arbitration (03.01.2018). Control of the respondent's compliance with the DSB's recommendations (21.11.2018)
DS479: Russia – Anti-Dumping Duties on Light Commercial Vehicles from Germany and Italy (EU, 21.05.2014)	While conducting anti-dumping investigations on imports and calculating dumping margins on light commercial vehicles, Russia failed to comply with the WTO rules for the determination of the existence of dumping, failed to disclose information relevant to injury determination, incorrectly defined the domestic industry, and failed to provide all relevant information and explanations.	Respondent adopted the DSB's recommendations to bring measures in conformity (20.06.2018)
DS485: Russia – Tariff Treatment of Certain Agricultural and Manufacturing Products - (EU, 31.10.2014)	For certain goods, including paper and paperboard, Russia applied ad valorem duty rates of 15 or 10 percent, thus exceeding the ad valorem bound rate of 5 percent. In cases where the customs value is below a certain level, duties were levied in excess of the bound rates.	Respondent complied with the DSB's recommendations (08.06.2017)
DS499: Russia – Measures Affecting the Importation of Railway Equipment and Parts Thereof (Ukraine, 21.10.2015)	Russia suspended the conformity assessment certificates issued to producers of railway rolling stock, railroad switches, other railroad equipment, and parts thereof prior to entry into force of the new Technical Regulations, and rejected new applications for certificates pursuant to the new procedures.	Examination by the AB (27.08.2018)
DS512: Russia – Measures Concerning Traffic in Transit (Ukraine, 14.09.2016)	Russia adopted restrictions on international automobile and railway traffic in transit of Ukrainian exports to the Republic of Kazakhstan and the Kyrgyz Republic: the international road and railway transit of goods	Panel examination (06.06.2017)

¹ ASF is African swine fever.

Dispute	Claim	Current stage (as of year end 2018)
	from Ukraine through the territory of Russia can be carried out only from the territory of the Republic of Belarus, on certain specific conditions. Additional measures include ban of transit of goods affected by the tariffs rates higher than zero, and ban of transit of goods which are under embargo.	
DS532: Russia – Measures Concerning the Importation and Transit of Certain Ukrainian Products (Ukraine, 13.10.2017)	Russia introduced measures affecting traffic in transit of Ukrainian juice products, beer, beer-based beverages and other alcoholic beverages, confectionery products, wallpaper and similar wall coverings to third countries. Exports of these products from Ukraine to Russia were significantly restricted, and some products were banned.	Consultations (13.10.2017)
DS566: Russia – Additional Duties on Certain Products from the United States (USA, 27.08.2017)	The USA claimed that these measures are inconsistent with Articles I:1 (General Most-Favored-Nation Treatment), II:1(a), and II:1(b) (Schedules of Concessions) of the GATT 1994, because Russia failed to extend to products of the USA the treatment granted by Russia with respect to customs duties and charges of any kind imposed on or in connection with the importation of products originating in the territory of other WTO members, and accorded less favorable treatment to products originating in the USA than that provided for in Russia's schedule of concessions. In accordance with RF Government Decree No. 788 dated July 6, 2018, from August 2018 Russia raised the rates of import customs duties on forklift trucks and other trucks equipped with lifting or loading-unloading devices, graders, tamping machines, tools for cutting optical fiber, etc. The new rates amount to 25, 30 and 40 percent of customs value, depending on product type.	Appointment of panel experts (18.12.2018)

Source: Own compilation based on data published on the WTO's official website: URL: https://www.wto.org/english/tratop_e/dispu_e/dispu_by_country_e.htm

4.7.2. The progress, in 2018, of the trade disputes handled by the WTO where Russia has acted as complainant

DS476: EU – Certain Measures Relating to the Energy Sector (30.04.2014)

In late April 2014, Russia filed a request for consultations with the EU concerning the so-called EU Third Energy Package, whereby the trunk lines situated in EU territory could not be owned by producers of natural gas (the upstream pipeline networks measure). In addition, the pipeline operators controlled by foreign persons were asked to undergo a special certification procedure and to comply with some additional requirements. Russia claimed that this and some other provisions of the EU Third Energy Package were inconsistent with the obligations assumed under a covered WTO agreement with respect to basic principles of non-discrimination and access to markets.

From March 7, 2016, a panel examination started, and the panel presented its report by August 10, 2018. The panel upheld 3 out of Russia's 6 claims. The panel recognized the certification measure, as well as the capacity cap for the operation of the OPAL gas pipeline (connected to the Nord Stream) imposed by the European Commission (EC) to be inconsistent and discriminatory (however, the latter issue had already been settled between the European Commission and Gazprom). Besides, the panel ruled that the exemptions granted to infrastructure 'projects of common interest' were inconsistent with the WTO norms and rules if these were applied to natural gas supplies from countries other than Russia. The core principle of the EU Third Energy Package (the upstream pipeline networks measure), preferential treatment of liquefied natural gas

(LNG) and its suppliers, and exemptions for field pipelines, disputed by Russia in the framework of the EU Gas Directive, were left unchanged.

On September 21, 2018, the EU appealed against the panel report, and on September 26, 2018, Russia followed suit.

DS493: Ukraine – Anti-Dumping Measures on Ammonium Nitrate (Russia)

On May 7, 2015, Russia filed with the WTO a request for consultations with Ukraine in respect of the Ukrainian anti-dumping measures on ammonium nitrate imports from Russia¹.

Russia essentially complained that, while conducting anti-dumping investigations on imports of ammonium nitrate originating in Russia, Ukraine rejected the information of producers on electric energy prices in Russia, using instead price information from third countries (i.e., resorted to ‘energy cost adjustments’). Besides, Russia believed that Ukraine had also violated some provisions of the Anti-Dumping Agreement.

Since the dispute could not be settled at the stage of consultations, on February 29, 2016 Russia requested the establishment of a panel, on April 22, 2016 a panel was established, and on February 2, 2017, the panel experts were appointed.

The panel presented its report on July 20, 2018. The panel recognized that Ukraine originally imposed anti-dumping duties on imports of ammonium nitrate from Russia following an anti-dumping investigation that was indeed inconsistent with the norms and rules established by the WTO. Russia essentially claimed that, in determining the cost of natural gas actually borne by the Russian producers and exporters for production of ammonium nitrate, the Ukrainian authorities failed to calculate costs on the basis of records kept by the Russian producers and exporters, and replaced these data with data on gas prices outside Russia that did not reflect the cost of production in the country of origin (so-called ‘energy cost adjustments’). Russia requested the consultations on May 7, 2015, and a panel was established on February 2, 2017. The fact that the panel sided with Russia in that dispute gave rise to an important precedent for similar disputes between Russia and the EU in respect of ‘energy cost adjustments’ (DS474, DS494, and DS521), the panels for which have not yet entered the case examination stage. Thus, the dispute in respect of imports of ammonium nitrate initiated by Russia against Ukraine was the first dispute subject to a panel ruling. On August 23, 2018, Ukraine filed an appeal against the panel report.

DS494: EU – Cost Adjustment Methodologies and Certain Anti-Dumping Measures on Imports from Russia (Russia)

On May 7, 2015, Russia filed another complaint against the EU with respect to the ‘cost adjustment’ administrative procedures, methodologies or practices of the EU for the calculation of the dumping margin in anti-dumping investigations and reviews of

¹ URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds493_e.htm

anti-dumping measures in accordance with Council Regulation (EC) No 1225/2009 of November 30, 2009 on protection against dumped imports from countries not members of the European Community¹.

This request filed by Russia also concerns the continued use of these anti-dumping measures by the EU – among other things, in relation to imports of ammonium nitrate originating in the Russian Federation, including definitive anti-dumping duties imposed beyond the established five year period as a result of an expiry review of those anti-dumping measures. Because the claims are essentially similar, Russia's complaint also referred to the definitive anti-dumping measures imposed on imports of certain welded tubes and pipes of iron or non-alloy steel originating in the Russian Federation, including those extended beyond the five year period as a result of the initiation of an expiry review by the EU.

Russia believes that in the course of anti-dumping investigation by the EU with respect to imports of ammonium nitrate, as well as welded tubes and pipes, the EU failed to take all the necessary measures to ensure conformity of its laws, regulations and administrative procedures with the provisions of the WTO Agreement, because the costs of production of these products were calculated not on the basis of domestic energy inputs in the territory of Russia, but on the basis of energy prices in third countries, that is, the EU resorted to 'cost adjustment' practices, thus causing significant injury to the suppliers from Russia. As estimated by Russian experts, the measures introduced by the EU against Russia appeared to effectively nullify Russia's exports of welded tubes and pipes to the EU (having been in effect since 2008), and Russia's exports of ammonium nitrate to the EU in 2014 shrank approximately 1.5 times relative to 2012 (in 2012, their value volume amounted to approximately USD 220 million)². According to data for 2014, about 30% of Russia's exports of the products at issue go to the EU, thus taking up nearly 11% of EU imports of ammonium nitrate (FEACN 310230) and welded tubes and pipes (FEACN 7305)³.

On November 7, 2016, Russia filed with the DSB a request for the establishment of a panel, on December 16, 2016 a panel was established, and 2 years later (on December 17, 2018), outside of the recommended timeframe, the panel experts were selected, with due regard to the opinions of the parties.

DS554: USA – Certain Measures on Steel and Aluminum Products (Russia)

On June 29, 2018, Russia filed with the DSB a request for consultations with the USA concerning the protective measures on steel and aluminum products imposed in spring

¹ URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds494_e.htm

² Russia filed complaints with the WTO against Ukraine and the EU URL: <http://www.wto.ru/2015/05/07/>

³ UN COMTRADE database, URL: <http://comtrade.un.org/>

2018. Russia claimed that the measures introduced by the USA were inconsistent with the GATT 1994 and the Agreement on Safeguards. In particular, the USA acted contrary to the WTO's principle of the MFN, because some countries were granted advantages and exemptions that were not extended to other countries; the USA introduced restrictions other than duties, taxes or other charges, made effective through quotas, on the importation of products, failed to produce reasoned conclusions and properly substantiate safeguard measures, failed to give notice in writing to the WTO in advance, and failed to afford the WTO and WTO members having a substantial interest as exporters in the products concerned an opportunity to consult with it in respect of the proposed action.

As far as the inconsistencies with the Agreement on Safeguards are concerned, the USA applied safeguard measures to imported products irrespective of their source, without first having determined that such products were being imported into its territory in such increased quantities, absolute or relative to domestic production, and under such conditions as to cause or threaten to cause serious injury to the domestic industry that produces like or directly competitive products, without first properly conducting an investigation and publishing a report that sets forth their findings and reasoned conclusions on all pertinent issues of fact and law, and it had not been properly determined that there was serious injury, or threat thereof, to a domestic industry; the USA failed to properly evaluate all relevant factors having a bearing on the situation of the domestic industry, and to demonstrate the existence of a causal link between increased imports and serious injury or the threat thereof; safeguard measures were applied beyond the extent necessary to prevent or remedy serious injury and to facilitate adjustment, the USA was applying safeguard measures without making provision for their application only for the period necessary to prevent or remedy serious injury and to facilitate adjustment, without limitation to four years, and without making provision for progressive liberalization at regular intervals, and did not endeavor to maintain a substantially equivalent level of concessions and other obligations to that existing under the GATT 1994 between them and the exporting members¹. In 2017, the USA received 13% of Russia's steel and aluminum exports (FEACN 72, 73 и 76), while Russia's share in US imports amounted to 32%.² Similar disputes with the USA were initiated by China (DS544), India (DS547), the EU (DS548), Canada (DS550), Mexico (DS551), Norway (DS552), and Switzerland (DS556), and Russia participated in many of these as a third party, of which more will be said later.

On October 18, 2018, Russia filed with the DSB a request for the establishment of a panel, and on November 21 a panel was established. As of year-end 2018, the dispute undergoes the stage of panel expert selection.

¹ URL: <http://www.vavt.ru/materials/site/7F7935A6>

² UN COMTRADE database, URL: <http://comtrade.un.org/>

4.7.3. The progress, in 2018, of the trade disputes handled by the WTO where Russia has acted as respondent

DS475: Russia – Measures on the Importation of Live Pigs, Pork and Other Pig Products from the EU (EU)

In early April 2014, the EU filed with the WTO a request for consultations with Russia concerning the ban on importation to Russia of pork and live pigs from all the EU member states because of concerns related to some cases of African swine fever (ASF), and a temporary restriction on imports of all types of pork products from Poland and Lithuania.

On June 27, 2014, the EU filed with the DSB a request for the establishment of a panel, and it was established a month later. On August 19, 2016, the panel presented its report, where it was stated that the measures at issue were not in line with EU law and the international standards laid down by the World Organization for Animal Health (OIE), and were introduced contrary to the standards set forth by the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (the SPS Agreement). Russia failed to properly base its sanitary measure on a risk assessment and did not take into account available scientific evidence underlying the EU regionalization measures. The regionalization principle allows trade with certain non-restricted areas that are recognized to be unaffected by pests of disease, in cases when the other territory of a country have been affected. Instead, Russia introduced a EU-wide ban on imports of all pork products and live pigs. The panel pointed out that the measures were discriminatory, and resulted in a disguised restriction on international trade.

On September 23, 2016, Russia appealed to the Appellate Body certain issues of law covered in the panel report and certain legal interpretations developed by the panel. On September 28, 2016, the EU likewise filed an appeal. On February 23, 2017, the Appellate Body (AB) presented its report, which was adopted by the DSB as of March 21, 2017. The AB upheld the panel's conclusion that the Russia's EU-wide ban on imports of all products of the pork industry was indeed a restriction on trade, while the conditions for Russia's accession to the WTO did not imply any limitations to the ability of the Appellate Body to review the claims presented by the EU with respect to the ban on importation. According to the RF Ministry of Economic Development, this conclusion is inconsistent with Russia's previously explained standpoint, and so gives rise to some issues that need to be settled in the framework of a bilateral discussion with the EU. In particular, from the conclusion presented by the panel it follows that the documentation for importation of pork products used by Russia and previously agreed upon with the EU, was inconsistent with the WTO Agreement, and so was not mandatory. By doing so, the AB effectively disavowed Russia's consent, consolidated by the Protocol of Russia's accession to the WTO, to the conditions of pork importation agreement that have already been used as a framework for pork supplied to the value of hundreds of millions euro, and suggested that the EU should reach a new agreement with the RF. The AB adopted a more general ruling whereby Russia was not only

allowed, but was obliged to unilaterally introduce alterations to bilateral veterinary certificates that were already previously agreed with other WTO members¹.

On the whole, the AB upheld the panel ruling, the DSB issued a recommendation that Russia should bring its administrative measures in conformity with the norms and rules of the WTO. On April 19, 2017, Russia announced its intention to implement the DSB's recommendations, within a reasonable period of time. On June 2, 2017, Russia and the EU agreed that the reasonable period of time for implementing the recommendations would amount to 8 months and 15 days from the moment of adopting the AB's report. That period expired on December 6, 2017, and by that time Russia had implemented the demands set forth by the DSB: the EU-wide ban on imports of pork, live pigs and pork product, that had been introduced in order to control the spread of ASF, was lifted, except with respect to certain administrative territories entered on a special list, and the agreed EU-Russia bilateral veterinary certificate forms were approved. In this connection, the RF Ministry of Economic Development emphasized that the food embargo introduced as a retaliatory measure in response to the EU economic sanctions was still in effect². However, that measure was not among the claims covered by the dispute.

According to the EU, Russia failed to fully implement all the recommendations set forth by the DSB, and so on December 9, 2017 the EU requested that retaliatory measures be introduced in the form of suspension of mutual concessions and obligations to the value of € 1.39 billion per annum (total value volume of exports in 2013), with annual increase of 15%. Russia disagreed, and a panel meeting was scheduled for January 3, 2018. For its part, Russia on January 25, 2018 filed with the WTO a request for consultations with the EU with respect to control of its implementation of the DSB's recommendations. Thus, from November 21, 2018, the same panel that had originally been established to settle this dispute has been checking the progress of implementation by Russia of the DSB's recommendations.

DS479: Russia – Anti-Dumping Duties on Light Commercial Vehicles from Germany and Italy (EU)

On May 21, 2014 the EU filed with the WTO a complaint against Russia with respect to anti-dumping duties imposed on light commercial vehicles (LCV) imported from Germany and Italy. The panel examined the case on December 18, 2014 and January 27, 2017, and then presented its report. Within a month, both Russia and the EU appealed against the panel ruling. On March 22, 2018, the Appellate Body presented its report concerning this dispute. The Appellate Body upheld the core conclusions of the panel whereby it was recognized that Russia had failed to conduct an objective examination, based on positive evidence, and so incorrectly calculated the anti-dumping duties on imports of light commercial vehicles from Germany and Italy. The AB upheld the panel's conclusion that the EEC, in the course of its investigation, incorrectly defined

¹ URL: http://pticainfo.ru/news/?ELEMENT_ID=53214

² URL: <https://www.rbc.ru/rbcfreenews/5a27ccc99a79474b20fce4f8>

the domestic industry by taking into consideration only one producer (the applicant) and overlooking GAZ Group. The AB agreed with the panel in that the EEC had failed to properly consider in the course of its investigation the effects of the 2009 financial crisis when wrongly taking the 2009 domestic industry's profit rate as the basis to establish the domestic target price without any adjustments. The AB upheld the panel ruling and established that the EEC's acts ran contrary to Articles 3.1 and 3.2 (injury determination) of the Anti-Dumping Agreement because it had failed to properly examine whether the market would accept any additional domestic price increases. The EU failed to prove the fact of the EEC's acts being inconsistent with Articles 3.1 and 3.4 (injury determination) of the Anti-Dumping Agreement, as it was not required to examine the information about stocks. Because the body conducting an investigation has the right but is not obligated to give consideration to such data, the AB upheld this conclusion presented by the panel. The AB ruled that the EEC acted inconsistently with Article 6.9 (essential facts under consideration) of the Anti-Dumping Agreement because it failed to disclose the essential facts at issue to all related parties. On April 9, 2018, the Dispute Settlement Body of the WTO adopted the reports presented by the panel and the AB and issued recommendations to the effect that Russia should bring its administrative measures in conformity with the norms and rules of the WTO. Due to the lengthy dispute settlement procedure practiced by the WTO coupled with an absence of any requirements that the measures at issue should be suspended over the dispute settlement period, the anti-dumping measures remained in effect throughout the announced 5-year period¹.

The aggregate imports of disputed goods from Germany and Italy to Russia in 2017 lost 83% in terms of value volume relative to 2012, and the corresponding imports from Turkey lost 51%. The share of light commercial vehicles from Germany and Italy in Russia's imports of this type of goods declined from 46% in 2012 to 29% in 2017².

DS499: Russia – Measures Affecting the Importation of Railway Equipment and Parts Thereof (Ukraine)

On October 21, 2015, Ukraine filed with the WTO a request for consultations with Russia concerning measures whereby restrictions were imposed on imports of railway equipment and parts thereof (in particular, railway rolling stock and railway switches)³.

Ukraine claimed that Russia was suspending the conformity assessment certificates issued to producers of railway transport infrastructure products and railway rolling stock prior to entry into force of the new Technical Regulations, and was rejecting applications for new certificates conforming with the newly introduced procedures. The claim presented by Ukraine is in the main that Russia's measures at issue accord less favorable treatment to like products originating in Ukraine than that accorded to like products of national origin and to like products originating in any other WTO member. These

¹ URL: <http://www.vavt.ru/materials/site/70BCB1DC>

² UN COMTRADE database, URL: <http://comtrade.un.org/>

³ URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds499_e.htm

measures created unnecessary obstacles to international trade, and Russia did not, upon request from the Ukrainian authorities, explain the justification for adoption of the measures at issue. Ukraine believed that Russian authorities violated certain aspects of the conformity assessment procedures. Besides, the information requirements were not limited to what was necessary to assess conformity and determine the fees, and the fees were not equitable in relation to any fees chargeable for assessing the conformity of like products.

On November 10, 2016, Ukraine requested the establishment of a panel, which set out to examine the case from March 2, 2017. On July 30, 2018, the panel presented its report concerning the dispute. The panel denied Ukraine's claim that Russia's measures were of a 'systematic' nature. At the same time, the panel agreed that the legitimate regulatory distinction test is *de facto* discriminatory with respect to Ukrainian railway products, that the conformity assessment procedures were applied more strictly than necessary, and the assessment results were not properly presented to applicants¹. In late August 2018, Ukraine appealed against the panel ruling.

DS566: Russia – Additional Duties on Certain Products from the United States (USA)

On August 27, 2018, the USA filed with the DSB a request for consultations with Russia concerning the introduction of import tariffs on some types of products manufactured in the USA. The USA argued that these measures were inconsistent with Articles I:1 (General Most-Favored-Nation Treatment), II:1(a), and II:1(b) (Schedules of Concessions) of the GATT 1994, because Russia did not impose the additional duties measure on like products originating in the territory of any other WTO member, and also appeared to be applying rates of duty to US imports greater than the rates of duty set out in Russia's schedule of concession. In accordance with RF Government Decree No. 788 dated July 6, 2018, from August 2018 onwards Russia raised the rates of import customs duties on forklift trucks and other trucks equipped with lifting or loading-unloading devices, graders, tamping machines, tools for cutting optical fiber, etc. The new customs duty rates amount to 25, 30 and 40 percent of customs value, depending on product type. According to the RF Ministry of Economic Development, Russia was acting in the framework of the Agreement on Safeguards, having introduced those measures by way of compensating for the injury resulting from the US safeguard measures against the importation of steel and aluminum products from other countries, Russia including. However, the USA noted that these were not safeguard measures, and so did not fall within the scope of the Agreement on Safeguards. Similar requests were filed by the USA against Canada (DS557), China (DS558), the EU (DS559), Mexico (DS560), and Turkey (DS561), and Russia joined those disputes as a third party. The said countries raised their customs tariffs on certain products in response to the safeguard measures introduced by the USA against steel and aluminum imports. Previously, these measures imposed by the USA had already been disputed with the

¹ URL: <http://www.vavt.ru/materials/site/BE758A6F>

WTO by some countries, Russia including (DS554) (see the section on those disputes where Russia had acted as a complainant)¹.

On November 22, 2018, the USA filed a request for the establishment of a panel, which was established on December 18, 2018. As of late 2018, the dispute undergoes the stage of panel expert appointment.

4.7.4. The progress, in 2018, of the trade disputes handled by the WTO where Russia has acted as third party

From the moment of its accession to the WTO, Russia has participated in 64 disputes as a third party. About 28% of these disputes have already been settled; in 36% of disputes, the main dispute settlement procedures have been completed; and in 5% of disputes, the DSB ruled in favor of the respondent (DS458, DS467, DS487). It is noteworthy that in two of those disputes where the ruling favored the respondent (the disputes with Australia concerning packaging of tobacco products and packaging), Russia sided with the respondents. Overall, Russia participated in the trade disputes initiated by the USA (13 out of 64 disputes), China and Japan (7 disputes), the EU (6 disputes), Canada and the Republic of Korea (4 disputes); and in the disputes against the USA (20 disputes), China (11 disputes), the EU (8 disputes), Australia and Canada (4 disputes each). Russia's role as a third party is usually motivated not only by a significant trade-related interest, but also – and mostly – by practical considerations related to certain specific issues and by systemic considerations that have to do with the implementation of certain norms and rules of the WTO. It sometimes so happens that formally different disputes that have been initiated by different complainants focus on one and the same measure imposed by the respondent (later, we are going to discuss some 'unique cases' among the 64 disputes where Russia acted as a third party (a total of 47 cases)). As far as the products at issue are concerned, Russia has joined, most frequently, the disputes that have to do with measures addressing metallurgy (11 out of 47 'unique cases'), agriculture and the food industry (10 cases), renewable energy sources (4 cases), the automotive and aircraft industries (2 cases each), the lumber industry and wood products (3 cases), and the chemical industry (2 cases). The disputes handled by the WTO where the Russian Federation has acted as a third party can be provisionally grouped around several themes (see *Table 41*).

Table 41

WTO disputes where Russia has been a third party

Theme	Disputes
1	2
1. Ban or restrictions on imports (environmental protection or other reasons).	DS400, DS401, DS469, DS484, DS495, DS524, DS531, DS537.
2. Safeguard investigation and measures (antidumping or countervailing measures and safeguards).	DS414, DS437, DS449, DS454, DS468, DS471, DS473, DS480, DS488, DS490, DS496, DS513, DS516, DS518, DS523, DS529, DS533, DS534, DS536, DS538, DS539, DS544, DS545, DS546, DS548, DS550, DS551, DS552, DS553, DS556, DS564

¹ <http://www.vavt.ru/materials/site/BE758A6F>

Cont'd

1	2
3. Restrictions on exports.	DS431, DS432, DS433, DS508, DS509, DS541
4. Intellectual property rights.	DS441, DS458, DS467, DS542.
5. Subsidies (including those related to tax exemptions and other preferential treatments).	DS502, DS456, DS472, DS487, DS497, DS489, DS510, DS511, DS522.
6. Tariffs and tariff-rate quotas.	DS492, DS517, DS557, DS558, DS559, DS560.
7. Economic sanctions.	DS526.

Source: Baeva M. A. (2015) Russian participation in the WTO trade disputes and dispute settlement // Russian Foreign Economic Journal, 3. P. 75–90.

As for the agreements covering the disputes where Russia acted as a third party (one dispute is usually covered by several agreements), their by-theme distribution is shown in Fig. 38 (only ‘unique’ disputes were selected – that is, the duplication of those measures that gave rise to several disputes was removed). The majority of these disputes have to do with the GATT, the Anti-Dumping Agreement, and the Agreement on Subsidies and Countervailing Measures (ASCM). Besides, Russia’s concerns also targeted inconsistencies with the Agreement Establishing the WTO and the Agreement on Safeguards.

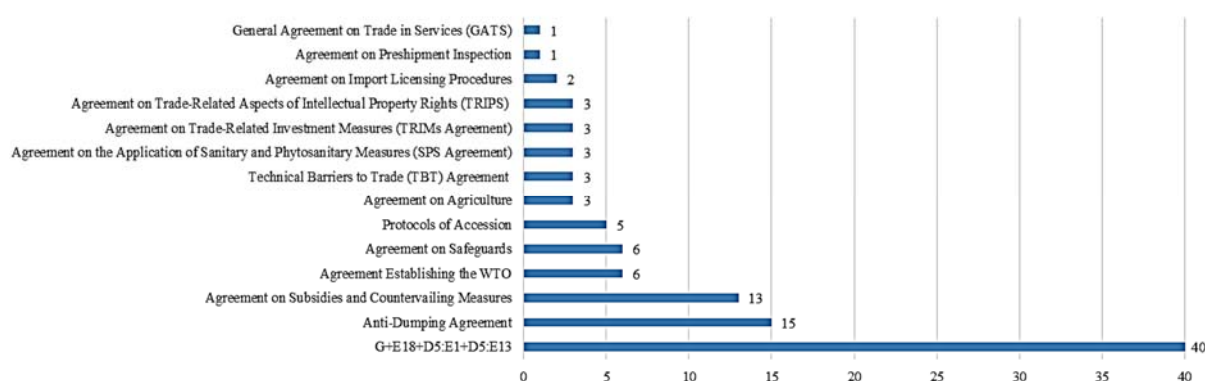


Fig. 38. The themes of disputes where Russia acted as a third party

Source: own compilation based on data published on the WTO’s official website: URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds462_e.htm

First of all, let us review the changes that occurred over the past year in the situation with regard to those disputes handled by the WTO where Russia participated as a third party prior to 2018.

DS437: United States – Countervailing Duty Measures on Certain Products from China

The dispute was initiated in late May 2012. China claimed that it encountered various difficulties when trying to access the results of investigations by USA that had served as the grounds for US countervailing measures against China. China cited approximately 20 such investigations conducted by the USA and targeting in the main

the products of metallurgy and the steel industry (for example, tubes and pipes, steel wheels, steel wire, etc.). China believes that the USA acted on an incorrect allegation that state-owned enterprises were ‘public bodies’ that were conferring countervailable subsidies through their sales of inputs to downstream producers. Besides, China pointed out that the US Department of Commerce (USDOC) initiated its investigation based on erroneous findings, in particular it failed to provide sufficient evidence that the subsidy would be specific for a given enterprise or industry. Also, the USDOC improperly calculated the alleged amount of benefit based on the prevailing market conditions in China.

From late July 2016, the panel was examining the implementation, by the respondent, of the DSB’s recommendations that the measures at issue should be made properly consistent by April 1, 2016. On March 21, 2018, the panel presented its report, and in late April - early May the USA and China both appealed against the panel ruling.

DS441, DS458, DS467: Australia – Certain Measures Concerning Trademarks, Geographical Indications and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging (Dominican Republic, Cuba, Indonesia)

In 2012–2013, several countries initiated disputes against Australia with respect to its requirements that all tobacco products should be sold in plain packaging without any trademarks, or display of design and figurative features, or company logos. The complainants claimed that by doing so, Australia acted inconsistently with the norms and rules of the WTO, including those covering intellectual property rights. Russia joined the dispute on the respondent’s side because of its own national anti-tobacco policies. On June 28, 2018, the panel presented its report that supported Australia, because it was not found to have violated the norms and rules of the WTO, and so the respondent was not required to resort to any acts. Among the complainants, only the Dominican Republic appealed against the ruling on August 23, 2018.

DS456: India – Certain Measures Relating to Solar Cells and Solar Modules (USA, 06.02.2013)

In early February, the USA filed a request for consultations with India concerning the measures introduced by the latter in the solar power industry. The DSB ruled that the Indian Government’s decision to establish and maintain domestic content requirements provided less favorable treatment to imported solar cells and solar modules than that accorded to like products originating in India. On December 19, 2017, the USA requested the authorization of the DSB to suspend concessions or other obligations on the grounds that India had failed to comply with the DSB’s recommendations.

At the DSB meeting in January 2018, the matter was referred to arbitration, because the parties had failed to enter into negotiations. On January 23, India requested the establishment of a compliance panel, and in late February the DSB agreed to refer the matter to the original panel.

The opportunities for increasing exports of the products at issue to India (their relative share in Russia's total exports of like products is currently about 5%¹) that will arise after the restrictions on foreign imports are lifted by India are of great practical interest for Russia.

DS471: USA – Certain Methodologies and Their Application to Anti-Dumping Proceedings Involving China (China)

The dispute was initiated in late 2013. The USA used a 'zeroing' methodology in its anti-dumping investigation, whereby a weighted average export price that was above or equal to a weighted average normal value was treated as zero, thus being disregarded when determining a margin of dumping for the product as a whole, and so the margin was inflated. China claimed that the methodology was inconsistent with the Anti-Dumping Agreement in that it incorrectly determined the fact and evidence of dumping and led to incorrect calculation and levying of anti-dumping duties. The panel upheld nearly all of the claims presented by China. In May 2017, the DSB, having adopted the AB's report, recommended that the USA should make its measures properly consistent by August 22, 2018.

On 9 September 2018, China requested the authorization of the DSB to suspend concessions or other obligations pursuant to Article 22.2 of the DSU ('suspending concessions or other obligations under the covered agreements') on the grounds that the United States had failed to comply with the DSB's recommendations and rulings within the reasonable period of time. The USA informed the DSB that it objected to China's proposed level of suspension of concessions. In late September 2018, the matter was referred to arbitration.

Anti-dumping investigations and anti-dumping measures are at issue in the majority of disputes initiated by Russia, thus underlining Russia's systemic interest in such matters. In April 2017, the USA initiated an anti-dumping investigation against imports of hot-rolled bars originating in Russia. Therefore the anti-dumping investigation methodologies applied by the USA are causing concern for Russia.

DS472, DS497: Brazil – Certain Measures Concerning Taxation and Charges (EU, Japan)

In 2013 and 2015, disputes were initiated against Brazil. According to the complainants, by means of establishing certain government programs in the automotive and electronics sectors, Brazil provided preferences and support to domestic producers and exporters, which was inconsistent with one of the core principles maintained by the WTO – that of 'national treatment'. The measures at issue were the imposition of a higher tax burden on imported goods than on domestic goods, tax advantages conditioned to the use of domestic goods, and the provision of export contingent subsidies. On August 30, 2017, the panel presented its report. The complainants' claims to Brazil were upheld and the measures at issue were recognized to be inconsistent with

¹ UN COMTRADE database. URL: <http://comtrade.un.org/>

the WTO norms. The panel determined that the discriminatory aspects of the government programs could indeed conduce to the establishment, in Brazil, of competitive and sustainable domestic industry capable of supplying the domestic market. However, Brazil did not demonstrate that such measures were indeed necessary for capacity-building of suppliers, because imports were not taken into consideration. The panel concluded that the alternative approaches (such as non-discriminatory subsidies or lowered trade barriers for imports of digital television transmitters) suggested by the complainant were not inconsistent with the WTO norms and were more compatible with the declared goals.

In autumn 2017, Brazil and the EU appealed against the panel ruling. On December 13, 2018, the AB presented its report. The AB agreed with the panel's conclusions that the government tax incentive programs for the automotive and electronics sectors were discriminatory in some of their aspects and inconsistent with the GATT 1994 and the TRIMs Agreement. The AB concluded that none of the measures at issue in the dispute could be justified within the meaning of Article III:8 (b) of the GATT 1994 (National Treatment on Internal Taxation and Regulation). The Appellate Body reversed the panel's findings that the tax suspensions granted to registered or accredited companies under the government programs constituted financial contributions in the form of government revenue, and also reversed the panel's findings that the tax suspensions granted to registered or accredited companies under the PEC and RECAP programs constituted financial contributions in the form of export subsidies. As for the import substituting subsidies, the AB upheld the panel findings for some programs, while reversing the findings for other programs. The AB reversed the panel's conclusions that Brazil withdrew the prohibited subsidies found to exist within 90 days because the underlying reasoning was not related to the specific circumstances of this case.

This dispute is of interest to Russia from the point of view of taxation practices and the settlement of disputes arising in this connection.

DS480: EU – Anti-Dumping Measures on Biodiesel from Indonesia (Indonesia)

In June 2014, Indonesia filed a request for consultations with the EU concerning Council Regulation (EC) No 1225/2009 dated November 30, 2009, with respect to anti-dumping measures imposed by the EU in 2013 on imports of biodiesel originating in Indonesia, and the underlying investigation. In particular, the cost adjustment methodology was disputed. In late February 2018, the DSB adopted the panel's report with the recommendation that the measures at issue were to be made properly consistent. The cost adjustment practices *per se* were not recognized to be inconsistent with the norms and rules of the WTO, but the anti-dumping investigation and measures introduced by the EU against imports of biodiesel from Indonesia were indeed inconsistent in some of their aspects. On October 20, 2018, the EU adopted the measure necessary to comply with the DSB's recommendations through implementing Regulation (EU) 2018/1570 (see the similar dispute initiated by Argentina (DS473)).

Russia noted that the EU Regulation was amended simultaneously with granting to Russia, in 2002, the market-economy status. In particular, the amendments enabled the EU to adjust the costs stated in producer/exporter documents on the basis of ‘information concerning other representative markets’. In Russia’s opinion, such practices are inconsistent with the WTO norms. Under the Anti-Dumping Agreement, the cost data applied in an investigation must reflect the actual costs related to the production and sale of goods in the country of origin. Russia believes that the notion of ‘dumping’ cannot refer to the prices of production resources.

DS484: Indonesia – Measures Concerning the Importation of Chicken Meat and Chicken Products (Brazil)

In October 2014, Brazil filed a request for consultations with Indonesia concerning the restrictive administrative procedures and measures on the importation of chicken meat and chicken products to the Indonesian poultry market. Brazil complained of the non-approval, by Indonesia, of the provided health certificate; of the imposition of a non-automatic import licensing regime to chicken meat and chicken products; of the requirement of a prior recommendation from the Indonesian Ministry of Agriculture for chicken meat imports and chicken product imports, and the imposition of pre-shipment inspection requirements causing unreasonable delays and applied in a discriminatory manner, etc. On November 17, 2017, the DSB adopted the panel report and issued recommendations that Indonesia should bring the measures found to be inconsistent into conformity with its WTO obligations. The panel ruled that the measures introduced by Indonesia are inconsistent with the provisions of the covered WTO agreements, but also found that some of the respondent's claims had not been sufficiently substantiated (transit restrictions). In December 2017, Indonesia informed the DSB that it would need a reasonable period of time to properly implement its recommendations.

On July 27, 2018, Brazil and Indonesia informed the DSB of agreed procedures under Articles 21 (Surveillance of Implementation of Recommendations and Rulings) and 22 (Compensation and Suspension of Concessions) of the DSU (sequencing agreement).

Russia does not export chicken meat and chicken product to Indonesia, probably because of the restrictions on imports imposed by Indonesia, and so their removal or adjustment can result in new contracts for supplies of the products at issue. Russia's participation in this dispute was motivated by an interest in SPS and TBT measures implemented in proper conformity with the norms and rules of the WTO and the practices of settling such disputes.

DS488: USA – Anti-Dumping Measures on Certain Oil Country Tubular Goods from Korea (Republic of Korea)

In late 2014, the Republic of Korea initiated a dispute with the USA, claiming that the anti-dumping measures on oil country tubular goods and the underlying investigation by the USA were inconsistent with the WTO norms. The USA failed to make a fair comparison between the export price and the normal value by failing to

make due allowance for differences between the products produced by the constructed value (CV) profit source and those produced by respondents, based on selling prices on the markets of third countries. In November 2017, the panel presented its report, where it rejected 7 out of 8 Korea's claims, and agreed that the USA had indeed failed to use actual data of the Korean respondents to determine their constructed value (CV) profit rate, even though their actual home market and third-country market profit data were available. The panel rejected the requests with respect to consistency with the norms and provisions of the WTO of US laws on normal value and export price calculation, procedural acts, and public notification procedures. On January 12, 2018, the DSB adopted the panel report. On February 9, 2018, the USA informed the DSB of its intention to implement the DSB's recommendations and rulings and that it would need a reasonable period of time to do so. Accordingly, the reasonable period of time was set to expire on January 12, 2019.

The dispute has to do with the issues of anti-dumping investigation methodologies, and so it is of systemic importance for the Russian Federation. The relative share of products at issue in Russia's exports to the USA is 35 percent, and in total imports into the USA – 4 percent¹.

DS490, DS496: Indonesia – Safeguards on Certain Iron or Steel Products (Chinese Taipei, Viet Nam)

In 2015, disputes were initiated with Indonesia. According to the complainants, the safeguard measures on imports of certain flat-rolled product of iron or non-alloy steel were inconsistent with the WTO norms. Indonesia provided no reasoned and adequate explanation concerning investigated imports and failed to properly demonstrate how increased imports could cause or threaten to cause serious injury to the domestic industry. Indonesia failed to provide an opportunity for consultations prior to the imposition of the safeguard measure. The measures imposed by Indonesia are inconsistent with the general principle of MFN, because they are applied only to products originating in certain countries, and Indonesia excluded from the said measures 120 developing countries, Russia including. On August 18, 2017, the panel presented its report, whereby it ruled that the measures at issue did not qualify as safeguards, and recommended that they should be made consistent with the MFN. In autumn 2017, each of the parties filed an appellee's submission. The AB in its report, presented in mid-August 2018, agreed with the panel findings. The parties agreed that Indonesia would bring its measures into conformity with its obligations by March 27, 2019.

For Russia, the relevant aspects of the dispute were the practices of settling matters related to safeguards and conducting an investigation thereof. Russia's interest in such a dispute could be indirectly stirred by the anti-dumping measures introduced by Indonesia over the period from December 27, 2013 through December 26, 2018 against

¹ UN COMTRADE database, URL: <http://comtrade.un.org/>

imports of hot-rolled flat products of steel originating in Russia (the import duties for some companies were as high as 20 percent)¹.

DS492: EU – Measures Affecting Tariff Concessions on Certain Poultry Meat Products (China)

In April 2015, China filed a request for consultations with the EU, because the EU undertook tariff modification negotiations with Thailand and Brazil concerning certain poultry meat products, in which these two countries have a significant vested interest, while China, although it has a similar interest, was denied an opportunity for such negotiations. The tariff rate quotas were almost entirely reserved for Brazil and/or Thailand, and out-of-quota bound rates were significantly in excess of the pre-modification bound rates. In March 2017, the panel presented its report, where the complainant's claims were upheld only with regard to 2 out of 10 tariff quotas at issue. The panel found that the EU's allocation of TRQ shares among the supplying countries was inconsistent with the requirements of the GATT 1994, and upheld China's claim that its increased ability to export poultry products to the EU following the relaxation of the SPS measures in July 2008 was a 'special factor' that had to be taken into account by the EU when determining which countries had a 'substantial interest' in supplying the products concerned, or when determining the TRQ shares to be allocated to the category of 'all other' countries that were not recognized as substantial suppliers (including China). All the other claims presented by China were rejected. The DSB recommended the EU to bring its measures into conformity with the WTO norms within a reasonable period of time.

In May 2018, the EU and China informed the DSB that in the event that they were unable to reach a mutually agreed solution, or the EU failed to carry out its obligations set out in the mutually agreed solution, the reasonable period of time would be deemed to have ended on July 19, 2018. No further actions have been undertaken so far. Very likely, the respondent brought the measures at issue in conformity within the established period.

The dispute is interesting from the point of view of changes in the list of bound rates of tariffs, understanding of the negotiating procedure, etc. The EU has also introduced a tariff rate quota for Russia, but it is quite low (about 30,000 t of poultry meat products)².

DS495: Republic of Korea – Import Bans, and Testing and Certification Requirements for Radionuclides (Japan)

In May 2015, Japan filed a request for consultations with the Republic of Korea regarding the measures adopted by the latter subsequent to the accident at the Fukushima

¹ Overview of existing restrictions on access of Russian products to foreign markets. URL: http://www.ved.gov.ru/rus_export/partners_search/torg_exp/

² Overview of existing restrictions on access of Russian products to foreign markets. URL: http://www.ved.gov.ru/rus_export/partners_search/torg_exp/

Daiichi nuclear power plant: import bans on certain food products; additional testing and certification requirements regarding the presence of certain radionuclides; and a number of alleged omissions concerning transparency obligations under the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement).

On February 22, 2018, the panel presented its report, and the claims of neither of the parties were upheld in full. It was found that the Korean measures were generally consistent with the WTO norms, but that they more trade-restrictive than required to meet their health objective, and besides, it was found that Korea failed to comply with its transparency obligations with respect to the publication of all the measures. In April 2018, the parties appealed and cross-appealed the panel decisions.

Russia, in addition to the obvious interest in the procedural aspects of the dispute settlement practices in the sanitary and phytosanitary field in accordance with the norms and rules of the WTO, has also a direct interest in such matters. The reason for this interest is that, after the accident at the Fukushima Daiichi nuclear power plant in March 2011, Russia also imposed a ban on fish imports from Japan, which was lifted by the Federal Service for Veterinary and Phytosanitary Surveillance of Russia only as late as summer 2015.

DS510: USA – Certain Measures Relating to the Renewable Energy Sector (India)

On September 9, 2016, India filed with the WTO a request for consultations with the USA regarding certain measures of the USA relating to domestic content requirements and subsidies instituted by the governments of several US states¹. These are state programs that provide performance-based incentives for the use of domestic components in the renewable energy sector, in particular a renewable energy cost recovery incentive for customers of light and power businesses for generating electricity from renewable sources, self-generation and hydropower systems, solar photovoltaic (PV) systems, and also tax incentive for ethanol production and tax credit for biodiesel blending and storage, etc. As consultations between the parties did not result in an agreement, on April 24, 2018, at the complainant's request, a panel was established, and its report is expected to be presented in Q2 2019.

In 2017, Russia joined the dispute as a third party. The outcome of the dispute, as well as of the similar dispute between the USA and India (DS456)², also joined by Russia, will be relevant for Russia because they offer a potential for increasing the volume of exports of the products at issue to these countries. The relative share of Russian exports of the products at issue to India in Russia's total exports shrank from approximately 8 percent in 2013 to 5 percent in 2016³. Besides, due to the high importance of the goal of developing alternative energy sources for Russia, it is necessary to give consideration to

¹ URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds510_e.htm

² URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds456_e.htm

³ UN COMTRADE database, URL: <http://comtrade.un.org/>

the use of domestic content in the production process, and also to subsidize production in such a way that would not be inconsistent with the norms and rules of the WTO.

DS513: Morocco - Anti-Dumping Measures on Certain Hot-Rolled Steel from Turkey (Turkey)

In October 2016, Turkey initiated a dispute with Morocco regarding the imposition of definitive anti-dumping measures, and certain aspects of the underlying investigation, by Morocco on imports of certain hot-rolled steel from Turkey¹. Turkey has concerns about the use by the Moroccan authorities of registration/licensing requirements and their failure to issue import licenses following the imposition of provisional anti-dumping measures. Turkey believes that act to be an additional impermissible ‘specific action against dumping’, which is inconsistent with the provisions of the WTO. The anti-dumping investigation procedures and the imposed measures, according to the complainant, were also contrary to certain provisions of the Anti-Dumping Agreement and the GATT 1994.

The panel, however, found that the Moroccan authorities failed to conclude the investigation within the 18-month maximum time-limit set out in that provision. It also found that Morocco had acted inconsistently with Article 6.9 by failing to inform all interested parties of certain ‘essential facts’. In late October 2018, the panel presented its report, where it was demonstrated that Morocco acted inconsistently with the norms of the WTO because, for example, the anti-dumping investigation was not concluded within the established period of 18 months, did not inform all the parties of its findings and ‘essential facts’, etc. The panel suggested that Morocco should immediately revoke the measures at issue. On November 20, 2018, Morocco appealed against the panel ruling.

Russia has a strong trade interest in this dispute because the relative share of ferrous metals exported by Russia to Morocco in Russia’s total exports of such products amounted to 6 percent in 2016, and its relative share in Morocco’s total imports of such products was 1 percent². Such disputes concerning anti-dumping measures are interesting to Russia from both systemic and practical points of view.

DS517: China – Tariff Rate Quotas for Certain Agricultural Products (USA)

In late 2016, the USA requested consultations with China concerning China’s administration of its tariff rate quotas, including those for wheat, some types of rice, and corn. The USA claimed that China acted contrary to its obligations assumed under the Protocol of Accession to the WTO, because its tariff-rate quotas (TRQ) for wheat, rice and corn were not transparent and predictable. The USA believed that China acted inconsistently with some provisions of the GATT 1994 by introducing prohibitions and restrictions on imports other than duties, taxes or other types of levies and failing to

¹ URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds513_e.htm

² URL: UN COMTRADE database // <http://comtrade.un.org/>

provide public notice of quantities permitted to be imported under each TRQ and of changes to these quantities.

On February 12, 2018, the USA requested that panel be established, and its report is expected to be presented in Q2 2019.

For Russia, the progress of this dispute is of great interest, because the relative share of the products at issue exported from Russia to China in Russia's total exports of these products shrank from 7 percent in 2012 to 0.2 percent in 2016, and that of rice – from 16 to 0.7 percent¹.

DS518: India – Certain Measures on Imports of Iron and Steel Products (Japan)

In late 2016, Japan filed with the WTO a request for consultations with India concerning certain measures imposed by India on imports of iron and steel products into India. Japan disputes the temporary safeguard measures on imports of 'hot-rolled flat products of non-alloy and other alloy steel in coils of a width of 600 mm or more'. The safeguard duty was not to be imposed on the products at issue that were imported at or above certain price listed in the notification. Japan claimed that the measures appear to be inconsistent with the GATT 1994 and the Agreement on Safeguards.

In early November 2018, the panel presented its report, whereby it upheld almost all of Japan's claims. On December 14, 2018, India appealed against the panel ruling.

The investigation results are of significant interest to Russia. After the imposition by India of the measures at issue, Russian exports of all the relevant products to India in 2016 shrank by 44 percent relative to 2015, and for one commodity item the index fell from USD 13 million to 0².

DS522: Canada – Measures Concerning Trade in Commercial Aircraft (Brazil)

In early 2017, Brazil filed a request for consultations with Canada with respect to measures concerning trade in commercial aircraft³. This a fourth dispute in a row initiated by Brazil against Canada concerning Brazilian measures affecting the aircraft industry. In this particular dispute, Brazil complains against alleged support in the form of subsidies provided by the Canadian government to Bombardier, Inc. in the framework of its C-Series aircraft program, among other things. According to Brazil, the government of the province of Quebec, which holds a 49.5 percent share in a newly-created entity supervised by Bombardier, invested CAD 1.3 billion in the Canadian aircraft manufacturer, and these measures caused nullification or impairment of benefits accruing directly or indirectly to Brazil⁴. Brazil believed that these were prohibited and actionable subsidies, inconsistent with the Agreement on Subsidies and Countervailing

¹ UN COMTRADE database, URL: <http://comtrade.un.org/>

² UN COMTRADE database, URL: <http://comtrade.un.org/>

³ URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds522_e.htm

⁴ URL: <https://aeronautica.online/2016/12/23/brazil-vs-canada-in-wto/>

Measures ('SCM Agreement'). From February 6, 2018, the procedure of panel examination was launched.

Russia already participated, in 2015, in a similar dispute between the EU and the USA with respect to subsidies in the aircraft industry (DS487, Airbus and Boeing). This industry, the permitted measures for its support, the practices of disputing those measures that are inconsistent with the norms and rules of the WTO, and the systemic aspects of such disputes, are all of great importance for Russia.

DS523: USA – Countervailing Measures on Certain Pipe and Tube Products (Turkey, 08.03.2017)

In March 2017, Turkey initiated a dispute against the USA with respect to countervailing measures imposed by the USA on certain types of pipe and tube products from Turkey¹. Turkey claimed that the measures appeared to be inconsistent with the Agreement on Subsidies and Countervailing Measures ('SCM Agreement') and the GATT 1994. Turkey's concerns were particularly focused on the USA's determination that certain entities were 'public bodies' within the meaning of SCM Agreement Article 1 ('Definition of a Subsidy'); the determination regarding specificity within the meaning of SCM Agreement Article 2 ('Specificity'), whereby a subsidy is 'specific' if it is specific to an enterprise or industry or group of enterprises or industries, and failure to substantiate it on the basis of positive evidence; the use of facts available and application of adverse inferences in calculating subsidy rates; the determination of injury based on cumulated imports, including imports from countries not subject to countervailing duty investigations or reviews (Article 15.3 'Determination of Injury') of the SCM Agreement.

On December 18, 2018, the panel report was presented. The panel rejected Turkey's claims concerning public body determinations, and the claims in relation to benefit determination and likelihood-of-injury determinations (dismissing Turkey's claims concerning sunset reviews), but upheld the claims concerning 'specificity determinations' and 'resort to the use of facts available' by the USA. The parties have a period of about two months to appeal and cross-appeal the panel ruling.

In addition to the practices of imposing countervailing measures and conducting underlying investigation, and the practices of disputing such measures when they are inconsistent with the WTO norms, Russia is also interested in the outcome of the dispute. In 2016, Russian exports of the products at issue to the USA lost almost 60 percent relative to 2015, while the relative share of exports to the USA in Russia's exports shrank from 14 percent in 2015 to 6 percent in 2016².

¹ URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds523_e.htm

² UN COMTRADE database, URL: <http://comtrade.un.org/>

DS526: United Arab Emirates – Measures Relating to Trade in Goods and Services, and Trade-Related Aspects of Intellectual Property Rights (Qatar)

In July 2017, Qatar initiated a dispute with United Arab Emirates (UAE) (joined by Russia) concerning measures that individually and collectively affected trade in goods, trade in services, and trade-related aspects of intellectual property rights. Qatar claimed that these measures were inconsistent with the GATT 1994, the GATS, and the TRIPS. From September 3, 2018, the panel examination request by Qatar has been underway.

Russia's interests in the framework of this dispute focus on the practical aspects of filing a complaint in response to economic sanctions, because these issues are usually not discussed by the DSB, and for Russia at present they are very important in view of the currently introduced sanctions. Russia also filed a complaint against Ukraine concerning imposed economic sanctions (DS525). Besides, among other things, the complainant demanded that Al Jazeera TV channel should be closed, and this measure is similar to the restrictions imposed on Russia Today TV channel's broadcasting in the USA, because both these channels distribute alternative content.

Below we discuss 25 disputes (all in all, they address 15 measures because, in the framework of several formally distinctive cases, different complainants dispute one and the same measure), that were joined by Russia as a third party in 2018.

DS524: Costa Rica – Measures Concerning the Importation of Fresh Avocados from Mexico (Mexico)

On March 8, 2017, Mexico filed with the WTO a request for consultations with Costa Rica with respect to certain measures allegedly restricting or prohibiting the importation of fresh avocados for consumption from Mexico. Mexico claimed that the measures appeared to be inconsistent with some articles of the GATT 1994 and the SPS Agreement, in particular the concept of regionalization in adaptation to regional conditions, including pest- or disease-free areas. On November 22, 2018, after the parties failed to come to an agreement in the course of consultations, Mexico requested the establishment of a panel, and on December 18, 2018, the panel was established.

Russia's interest in this dispute is motivated mostly by the practical aspects of participating in disputes focused on SPS measures and the need to systematically study the relevant provisions. Russia is a respondent in a similar dispute initiated by the EU with respect to imports of pork and live pigs (DS475).

DS529: Australia – Anti-Dumping Measures on A4 Copy Paper (Indonesia)

In early September 2017, Indonesia requested consultations with Australia with respect to its refusal to use the Indonesian exporters' home market price as the normal value of raw material (lumber) and the imposition of an anti-dumping order on A4 copy paper, because it found that a particular market situation existed, and the Government of Indonesia had been implementing policies that increased the supply of timber, which allegedly resulted in lower paper prices due to lower timber prices. As the consultations

did not produce the desired result, Indonesia in mid-March 2018 requested that the DSB should establish a panel; the panel was established in late April, and it set out to examine the case on July 12, 2018.

This complaint by Indonesia resembles Russia's claims to the EU (DS474, DS494 and DS521) and Ukraine (DS493), and this was the reason for Russia to join the dispute.

DS531, DS537: Canada – Measures Governing the Sale of Wine in Grocery Stores (USA, Australia)

On September 28, 2017, the USA filed a second request for consultations with Canada with respect to the Canadian provinces of British Columbia, Ontario, Quebec, and Nova Scotia's measures governing the sale of wine in grocery stores (the first one is DS520). Among the measures at issue was the discrimination against imported wine by allowing only Canadian wine to be sold on regular grocery store shelves. The USA claimed that such measures were inconsistent with Article III:4 (National Treatment on Internal Taxation and Regulation) of the GATT 1994. In late May 2018, the USA requested the establishment of a panel, which was established on July 20, 2018.

Australia, one of the world's largest exporters of wine, including to Canada (8 percent of Canada's wine imports and 7 percent of Australia's wine exports in 2017)¹, on January 12, 2018 also requested consultations with Canada on the same issue, in its complaint increasing the number of claims concerning Canada's inconsistency with the provisions of the GATT 1994 by comparison with those presented by the USA. On August 13, 2018, Australia requested the establishment of a panel, which was established on September 26, 2018. As of late 2018, both disputes with Canada were at the stage of appointing panel experts.

As Russia does not export wine to Canada, Russia's participation in that dispute was motivated not by a significant trade-related interest, but by the unusual character of the claims and the desire to gain practical experience of dealing with such a dispute.

DS533: United States – Countervailing Measures on Softwood Lumber from Canada (Canada)

In late November 2017, Canada filed a request for consultations c USA concerning certain countervailing measures with respect to softwood lumber products from Canada. Canada claimed that the USA improperly attributed to the production of softwood lumber products certain alleged subsidies that were bestowed on the production of products that were not under investigation, including under hydro-electricity purchase agreements (renewable energy sources), improperly initiated an investigation into federal and provincial log export permitting processes, and erroneously rejected benchmarks that reflected prevailing market conditions in Canadian provinces. Canada believed that these measures were inconsistent with certain provisions of the GATT 1994 and the Agreement on Subsidies and Countervailing Measures (SCM Agreement).

¹ UN COMTRADE database, URL: <http://comtrade.un.org/>

In mid-March 2018, Canada filed a request for the establishment of a panel, which was established on April 9, 2018; on July 6, 2018, panel experts were appointed, and the panel began to examine the case.

Russia joined that dispute not only because of being interested in the practical aspects of a dispute concerning countervailing measures, but also because of having significant trade-related interests. The relative share of the USA in Russia's exports of softwood lumber products (FEACN 440910) in 2017 amounted to 7 percent, and their share in US imports was less than 1 percent.¹

DS534: USA – United States – Anti-Dumping Measures Applying Differential Pricing Methodology to Softwood Lumber from Canada (Canada)

In late November 2018, Canada filed another request for consultations with the USA, this time with respect to the US anti-dumping measures applying the differential pricing methodology to softwood lumber products from Canada. Canada claimed that, in applying the weighted-average-to-transaction (W-T) calculation methodology, the USA improperly aggregated random and unrelated price variations and therefore failed to identify a pattern of export prices, and applied zeroing in its W-T calculation methodology, while zeroing in the W-T methodology did not account for all of the purported pattern transactions in calculating the margin of dumping, and so did not lead to a fair comparison of export prices. Canada believed that these measures and methodology were inconsistent with US obligations under the GATT 1994 and the Anti-Dumping Agreement.

In mid-March 2018, Canada filed a request for the establishment of a panel, on April 9, 2018 it was established, and on May 22, 2018 it began to examine the case. The panel report is expected to be circulated in H1 2019.

Similarly to the dispute between Canada and the USA concerning countervailing measures with respect to softwood lumber products (DS533), Russia's participation in this dispute was determined not only by an interest in the practical aspects of a dispute concerning countervailing measures, but also by significant trade-related interests. The relative share of the USA in Russia's exports of softwood lumber products (FEACN 440910) in 2017 amounted to 7 percent, and their share in US imports was less than 1 percent.

DS536: United States – Anti-Dumping Measures on Fish Fillets from Viet Nam – Constitution of the Panel established at the request of Viet Nam (Viet Nam)

On January 8, 2018, Viet Nam filed with the DSB a request for consultations with the USA concerning certain anti-dumping measures on fish fillets from Viet Nam and other US legal instruments, in particular the zeroing methodology applied in the underlying anti-dumping investigation. The complainant claimed that these measures were inconsistent not only with the GATT 1994 and the Anti-Dumping Agreement, but also

¹ UN COMTRADE database, URL: <http://comtrade.un.org/>

with the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU), the WTO Agreement, and Viet Nam's Protocol of Accession to the WTO.

Russia joined the dispute because of an interest in the practical aspects of settling disputes with the USA concerning countervailing measures. Russia likewise joined, as a third party, the dispute initiated by China against the USA with respect to zeroing methodology (DS471), where almost all of the claims presented by China were upheld by the DSB, and the USA was required to bring its measures in conformity by August 22, 2018; however, as of late 2018, the arbitrator composed by the original panel members was examining the issue of concessions or other obligations required from China.

DS538: Pakistan – Anti-Dumping Measures on Biaxially Oriented Polypropylene Film from the United Arab Emirates (UAE)

In late January 2018, the UAE filed a request for consultations with Pakistan concerning Pakistan's anti-dumping measures on imports of biaxially oriented polypropylene film from the UAE (BOPP film). The UAE claimed that the anti-dumping investigation and the following anti-dumping measures were inconsistent with the GATT 1994 and the Anti-Dumping Agreement. For example, there was insufficient accurate and adequate evidence to justify the initiation of the anti-dumping investigation, and the application filed by Pakistan should therefore have been rejected.

In mid-May 2018, the UAE filed a request with the DSB for the establishment of a panel, and it was established in late October 2018. As of late 2018, the dispute was undergoing the stage of appointment of panel experts.

Anti-dumping investigations were also initiated by Pakistan against certain Russian companies, but the corresponding measures were not imposed on Russian imports of hot-rolled steel sheets (proceedings started in early April 2009 and ended in late February 2011) and *phthalic anhydride* (proceedings started in mid-February 2016 and ended in mid-December 2017)¹.

DS539: United States – Anti-Dumping and Countervailing Duties on Certain Products and the Use of Facts Available (Republic of Korea)

On February 14, 2018, the Republic of Korea filed with the DSB a request for consultations with the USA concerning certain anti-dumping and countervailing duty measures imposed on products from Korea, and certain laws, regulations and other measures maintained by the USA with respect to the use of facts available in anti-dumping and countervailing duty proceedings.

The Republic of Korea complained that the USA developed a practice of using adverse facts available as a rule or norm in anti-dumping and countervailing duty investigations and reviews, and claimed that Korean producers or exporters failed to cooperate to the best of their ability, and the USA failed to comply with its obligations relating to the use of facts available when making preliminary and/or final

¹ URL: <http://i-tip.wto.org/goods/>

determinations of dumping and/or subsidization, which has a direct consequential effect on the imposition and maintenance of anti-dumping or countervailing duties, and the level of such duties

In mid-April 2018, Korea filed a request for the establishment of a panel, which was established in late May 2018, and on December 5, 2018, the panel began to examine the case.

In April 2017, the USA initiated an anti-dumping investigation of certain Russian producers of hot-rolled steel rods¹. Therefore the methodologies applied by the USA in the course of anti-dumping investigations are of interest to Russia, as earlier Russia has already joined some disputes with the USA initiated with respect to its anti-dumping investigation methodologies.

DS541: India – Export Related Measures (USA)

In March 2018, the USA filed a complaint against India concerning certain alleged export subsidy measures that the USA believed to be inconsistent with Articles 3.1(a) and 3.2 (Prohibition) of the Agreement on Subsidies and Countervailing Measures. The USA claimed that India provided export subsidies through its Export Oriented Units Scheme and sector specific schemes, including electronics hardware technology parks scheme, the merchandise exports from India scheme, the export promotion capital goods scheme, special economic zones, and a duty-free imports for exporters program.

On May 17, 2018, the USA filed a request for the establishment of a panel, because the dispute was not settled at the stage of consultations. On July 23, 2018, the panel began to examine the case, and its report is expected to be presented not earlier than Q2 2019.

Probably, Russia joined this dispute not so much because of its trade-related interests (Russia's total exports to India in 2017 amounted to approximately 2 percent of Russia's total exports), as its interest in the practical aspects of various export promotion schemes and their potential *disputability* in the framework of the WTO dispute settlement mechanism.

DS542: China – Certain Measures Concerning the Protection of Intellectual Property Rights (USA)

On March 23, 2018, the USA filed with the DSB a request for consultations with China concerning certain Chinese measures pertaining to the protection of intellectual property rights. The essence of the USA's claims is that China denied foreign patent holders the ability to enforce their patent rights against a Chinese joint-venture party after a technology transfer contract ended. China also imposed mandatory adverse contract terms that discriminated against and were less favorable for imported foreign technology. Therefore, China deprived foreign intellectual property rights holders of the ability to protect their intellectual property rights in China, as well as to freely negotiate market-based terms in licensing and other technology-related contracts.

¹ UN COMTRADE database, URL: <http://comtrade.un.org/>

On October 18, 2018, the USA filed a request for the establishment of a panel, and it was established on November 21, 2018. As of late 2018, the dispute was undergoing the stage of appointment of panel experts.

Russia's participation in this dispute can be explained not only by an interest in analyzing the outcome of the trade war between the USA and China, where Russia has also taken some part (with respect to steel and aluminum), but also by Russia's significant interest in contracts with China that have to do with technologies and the protection of intellectual property rights of Russian suppliers.

DS544, DS548, DS550, DS551, DS552, DS556, DS564: United States – Certain Measures on Steel and Aluminum Products (China, EU, Canada, Mexico, Norway, Switzerland, Turkey)

On 5 April, 2018, China; on June 1, 2018, the EU and Canada; on June 5, 2018, Mexico; on June 12, 2018, Norway; and on August 15, 2018, Turkey filed their requests for consultations with the USA concerning certain measures on steel and aluminum products imposed by the USA.

In late June 2018, Russia also filed a similar complaint with the DSB against the USA concerning the measures at issue (DS554) (see earlier).

DS545: United States – Safeguard Measure on Imports of Crystalline Silicon Photovoltaic Products (Republic of Korea)

On May 14, 2018, the Republic of Korea filed with the DSB a request for consultations with the USA concerning definitive safeguard measures imposed by the United States on imports of certain crystalline silicon photovoltaic products. Korea claimed that these measures were inconsistent with the Agreement on Safeguards and the GATT 1994, because the USA failed to provide a reasoned and adequate explanation of any unforeseen developments and the effect of the obligations incurred under the said agreements, and that these indeed resulted in the increased imports causing serious injury to the domestic industry.

In mid-August 2018, Korea filed with the DSB a request for the establishment of a panel, and it was established in late September 2018. As of late 2018, the dispute was undergoing the stage of appointment of panel experts.

Russia joined this dispute as a third party, because safeguard measures imply protection against all countries, Russia including. Besides, Russia wants to gain some experience in handling disputes with the USA with respect to safeguards, because Russia itself has initiated a similar dispute (DS554).

DS546: United States – Safeguard Measure on Imports of Large Residential Washers (Republic of Korea)

In mid-May 2018, the Republic of Korea filed with the DSB a request for consultations with the USA concerning definitive safeguard measures imposed by the United States on imports of large residential washers, which Korea believed to be

inconsistent with certain provisions of the Agreement on Safeguards and the GATT 1994. In particular, similarly to the previously discussed dispute (DS545), Korea considers that the USA failed to make a determination regarding the existence of unforeseen developments resulting in increased imports, and the effect of the obligations incurred under the GATT 1994.

In mid-August 2018, Korea filed a request for the establishment of a panel, and it was established on September 26, 2018. As of late 2018, the dispute was undergoing the stage of appointment of panel experts.

Russia joined this dispute as a third party, because safeguard measures imply protection against all countries, Russia including. Besides, Russia wants to gain some experience in handling disputes with the USA with respect to safeguards, because Russia itself has initiated a similar dispute (DS554).

DS553: Republic of Korea – Sunset Review of Anti-Dumping Duties on Stainless Steel Bars (Japan)

On June 18, 2018, Japan filed with the DSB request for consultations with the Republic of Korea concerning Korea's determination to continue the imposition of anti-dumping duties on stainless steel bars (SSB) from Japan as a conclusion in the third sunset review. Japan believed that the measures at issue were inconsistent with Korea's obligations under certain provisions of the Anti-Dumping Agreement and the GATT 1994 because, in particular but not limited to, Korea failed to properly determine, as the basis to continue the imposition of anti-dumping duties on the imports from Japan, that the expiry of the duties would be likely to lead to continuation or recurrence of injury. Korea failed to demonstrate the nexus between the expiry of the duties and a continuation or recurrence of injury, and to comply with the fundamental requirement that such determination should rest on a sufficient factual basis and reasoned and adequate conclusions.

On September 13, 2018, Japan filed a request for the establishment of a panel, and it was established in late October 2018. As of late 2018, the dispute was undergoing the stage of appointment of panel experts.

Over the period from October 27, 2008 to April 9, 2015 Korea imposed anti-dumping duties on kraft paper imports by certain Russian companies. Russia's interest in this dispute can be explained by the need to gain practical experience in measures designed to protect the domestic market.

DS557: Canada, DS558: China, DS559: EU, DS560: Mexico – Additional Duties on Certain Products from the United States (USA)

On July 16, 2018, the USA filed with the DSB requests for consultations with Canada, China, the EU, and Mexico concerning the imposition of additional duties (that is, increased duties with respect to certain products originating in the USA in response to the imposition, by the USA, of safeguard measures with respect to steel and aluminum products).

Besides, the USA also filed a complaint concerning similar measures against Russia (DS566) (see earlier). As of late 2018, the dispute was undergoing the stage of appointment of panel experts.

* * *

Russia continues to actively participate in the settlement of trade disputes handled by the WTO. In a majority of cases, Russia acts as a complainant or respondent in disputes between WTO members with the EU and Ukraine. In 2018, two new disputes with the USA were initiated. As a complainant, Russia is concerned in the main with anti-dumping investigations and anti-dumping measures, in particular in metallurgy and the chemical industry. Complaints against Russia in the framework of the WTO are filed by its members with respect to the following issues: technical barriers to trade; sanitary and phytosanitary measures; anti-dumping measures; investment measures influencing trade; tariffs; transit restrictions.

Overall, in 2012–2018, three disputes initiated against Russia underwent the main dispute settlement stages:

1. In the dispute initiated by the EU with respect to the duty rates that exceeded the ad valorem bound rate as of the moment of Russia's accession to the WTO (palm oil, refrigerators, paper and paperboard), in summer 2017 Russia adjusted all the duty rates at issue through decisions of the EEU and the EEC (DS485);

2. By the end of the reasonable period requested for the implementation of the DSB's recommendations, on December 6, 2017 Russia lifted the EU-wide ban on imports of pork, live pigs and pork products, with the exception of certain administrative territories that Russia considers to be dangerous with respect to outbreaks of African swine fever (ASF). However, as live pigs were added to the list of products that are subject to a ban on importation into the RF territory, no imports were effectively allowed. The EU claimed that Russia failed to implement all the recommendations of the DSB, and so requested the establishment of a compliance panel. The EU also requested the authorization of the DSB to suspend concessions or other obligations. EU filed a request that concessions and obligations to the value of EUR 1.39 billion per annum (an amount equivalent to total exports in 2013) with annual increase of 15 percent should be suspended. As Russia disagreed, the matter was referred to arbitration (DS475);

3. Anti-dumping measures against imports of light commercial vehicles (LCV). Russia abolished its anti-dumping duties on light commercial vehicles imported from Germany and Italy. The time-frame for implementing the DSB's recommendations coincided with the end of the period during which they were to be in effect. Due to the lengthy dispute settlement procedure practiced by the WTO coupled with an absence of any requirements that the measures at issue should be suspended over the dispute settlement period, the anti-dumping measures remained in effect throughout the announced 5-year period (DS479).

As far as the disputes initiated by Russia through the WTO are concerned, none of these has yet progressed through all the dispute settlement stages. Two disputes – one against the EU concerning the EU Third Energy Package (DS476), the other against Ukraine concerning anti-dumping measures against imports of ammonium nitrate (DS493) – undergo the stage of ‘panel report under appeal’.

As a third party, Russia usually joins the disputes focused on the products of metallurgy, agriculture, the food industry, the automotive and aircraft industries, renewable energy sources, and lumber and wood products. Special focus is made on those disputes that address anti-dumping investigations and the resulting anti-dumping measures. Russia’s participation as a third party can be explained not only by a strong trade-related interest, but also by the need to gain practical experience of settling a dispute, as well as a systemic interest in the procedures governed by the norms and rules of the WTO.

Russia’s role as a third party is usually motivated by:

- 1) *significant trade-related interests* (for example, on April 10, 2015 China lifted the anti-dumping duties on imports of grain oriented flat-rolled electrical steel (‘GOES’) from the USA and Russia (DS414));
- 2) *practical experience of participating in disputes addressing specific themes* (in particular, anti-dumping, countervailing and safeguard measures, and underlying investigations);
- 3) *systemic interest in the implementation of norms and rules of the WTO* (in the framework of WTO Agreements. The most recent examples are the disputes initiated by the USA and Australia against Canada concerning measures governing the sale of wine in grocery stores (DS531 and DS537);
- 4) *sometimes Russia sides with the respondent* (as a rule, with respect to issues of human and animal health protection). Examples: the disputes initiated by Canada and Norway against the EU concerning measures prohibiting the importation and marketing of seal products (DS400 and DS401); the disputes initiated against Australia concerning trademark restrictions and other plain-packaging requirements for tobacco products (DS441, DS458 and DS467).

For Russia, it is extremely important to assume a correct standpoint and apply correct tactics in the framework of disputes handled by the WTO in order to develop mutually beneficial trade consistent with the norms and rules of the WTO, while protecting Russia’s own interests. It is essential to use to good advantage the WTO’s dispute settlement mechanism. Besides, another relevant aspect is Russia’s reputation as a reliable and responsible trade partner and WTO member. One more highly disputable issue that has recently gained in importance is the potential reform of the WTO, and in particular its dispute settlement mechanism (for example, the appointment of the Appellate Body). Russia should follow the course of development and preservation of the WTO as the main plurilateral floor for settling international trade issues, including the WTO’s dispute settlement mechanism, and further increasing the transparency of its procedures governing international trade.

4.8. Decomposition of economic growth in the Russian Federation through 2024¹

In 2018, the growth rate of GDP in Russia (2.3 percent) represents a record high of per annum economic growth rate since 2012. This year-end result is notably above the estimates offered by a majority of international financial organizations (the IMF, World Bank, the OECD), as well as by Russian banking analysts and experts. The volume of GDP in nominal terms surged above RUB 100 trillion, to RUB 103,626.6 billion (or approximately USD 1,657 billion when recalculated at the annual average RUB-to-USD rate). Growth was also displayed by most of the basic indicators: thus, the industrial production index in 2018 gained 2.9 percent, freight turnover – 2.9 percent, retail trade turnover – 2.6 percent. Special note should be made of the movement pattern of fixed investment: according to preliminary estimates released by *Rosstat*, its annual growth index amounted to 4.3 percent. Considering the fact that, in 2017, the amount of fixed investment in constant prices increased by 4.8 percent, it can be said that over the period 2017–2018, the investment sphere indeed experienced intense growth; however, the main contribution to that growth was made either by budget-funded investments (the completion of building construction projects in preparation for the World Cup; the construction of the bridge to the Crimea; the Sabetta Airport and Seaport; and infrastructure in the city of Moscow), or investments by state-owned companies (Nord Stream 2 natural gas pipeline; Yamal LNG; etc.)

At the same time, the RF Ministry of Economic Development explains the fact of GDP growth in 2018 by the impact of ‘one-time factors’², and is still oriented, in its forecast, to a slowdown in the economic growth rate in Russia in 2019 to 1.0–1.3 percent (depending on a particular scenario).

In order to assess the current situation in the Russian economy and the potential for achieving the established development targets, we analyzed the year-end structure of GDP growth rate for 2018. For this purpose, we applied the methodology for decomposition of GDP growth adapted to Russia’s conditions^{3,4}, which analyses the observed GDP growth rate as a combination of the structural, foreign trade and cyclical components. The structural component is responsible for long-term GDP growth rate and is determined by the movement patterns of fundamental production factors: labor, capital, total factor productivity. The foreign trade component is shaped by the fluctuations of a country’s trade conditions, and in the case of Russia, it closely

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² <https://www.rbc.ru/economics/13/02/2019/5c6378929a79471f926430ef>

³ Drobyshevsky S.M., Idrisov G.I., Kaukin A.S., Pavlov P.N., Sinelnikov-Murylev S.G. Decomposition of Russian GDP growth rates in 2007–2017 and forecast for 2018–2020. // *Voprosy Ekonomiki*. 2018. No 9. P. 5–31.

⁴ The methodology is based on decomposition of GDP across the OECD, see Giorno C., Richardson P., Roseveare D. and van den Noord P. 1995. Estimating Potential Output, Output Gaps and Structural Budget Balances. OECD Economics Department Working Papers. No. 152. OECD Publishing, Paris.

correlates with the global prices for tradable raw materials: oil, natural gas, metals, etc. The cyclical component is the sum of domestic business cycle and accidental shocks.

Because the methodology for GDP decomposition applied in our study is sensitive to the specificities of a selected estimation period, the estimates based on the observations pertaining to the last few years, which are also those most relevant for our analysis, may be not quite correct, and they are often adjusted at a later date, when the macroeconomic time series are extended¹. So, we need to plot certain economic development scenarios for several years forward. For this study, we applied the RF Ministry of Economic Development's socioeconomic development forecast for the period until 2024, which was included in the package of documents attached to the draft Federal Law 'On the federal budget for 2019 and the planning period 2020–2021'.

The forecast has been prepared in two versions (conservative and baseline). Under the baseline scenario, as said earlier, the growth rate in Russia's economy in 2019 is expected to amount to 1.3 percent relative to the previous year. However, the slowdown in economic growth will be only temporary, and later on, as a result of the successful completion of national projects in the framework of the main directions of Russia's socioeconomic development and implementation of measures designed to boost investment activity, the rate of GDP growth will follow a higher trajectory, thus creating appropriate conditions for achieving the main goals outlined in Presidential Executive Order No 204 dated May 7, 2018 'On National Goals and Strategic Objectives of the Russian Federation through to 2024'. Thus, in 2020, Russia's GDP will gain 2 percent relative to the previous year, and then from 2021 onwards it will increase at a rate above 3 percent, rising in 2024 to the level of 3.3 percent.

The conservative scenario of Russia's economic development is geared to the conditions of a significant slowdown in the global economic growth rate triggered by China hard landing, and a resulting shrinkage of the demand for energy carriers and other raw materials, followed by a plunge of world prices for these types of goods. In particular, it is predicted that by 2024, world oil prices will decline to USD 45.9 per barrel vs. USD 53.5 per barrel under the baseline scenario. As the forecast's authors have emphasized, the current macroeconomic policy followed by the government ensures that the domestic economy's parameters only rather weakly depend on the volatility of oil prices; however, if the conservative scenario should materialize, the source of negative effects for Russia's economy will become the low foreign demand for domestic exports.

For each of these scenarios, we did a scenario-based decomposition of the GDP growth rate for the period 2007–2024. *Fig. 39* shows the movement patterns of the structural, foreign trade and cyclical components under the RF Ministry of Economic Development's baseline scenario only, because the variance of values pertaining to the two scenarios is low, and the addition of the second scenario values does not fundamentally influence the final results of our analysis.

¹ Turner, D. et al. (2016). An investigation into improving the real-time reliability of OECD output gap estimates. OECD Economics Department Working Papers, No. 1294, OECD Publishing, Paris.

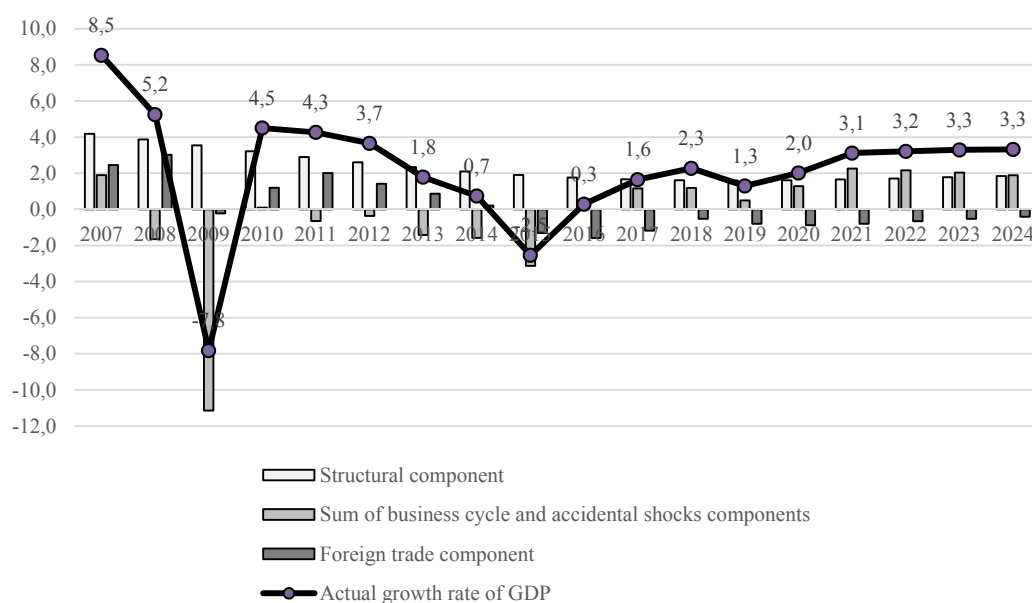


Fig. 39. Decomposition of the GDP rate growth over the period 2007–2024 (baseline scenario)

Sources: Rosstat; RF Ministry of Economic Development; own calculations.

As demonstrated by the graphs in Fig. 39, the biggest input in the growth rate of GDP in 2018 was made by its structural component, which we estimate to be gaining 1.6–1.8 pp. per annum, and which remains sufficiently stable throughout the entire period from 2016 through 2024. According to our estimations, the total factor productivity (TFP) was at its record low in 2015–2016, and then in 2018, the TFP index of Russia’s economy roughly corresponded to its 2013 level (the year of a noticeable slowdown in the national economy, even in face of persistently high oil prices). Even under the baseline scenario of the Russian economy’s development, the TFP index is not going to climb, by 2024, above its 2008–2009 level. The inputs of investment growth and fixed capital growth to the structural component’s growth rate are almost totally offset by the decline in economically active population.

In spite of the rise, in 2018, of the average annual price of Urals to USD 69.6 per barrel from USD 53 per barrel in 2017, oil prices are still staying below their multiyear average of the previous periods, and the input of the foreign trade component in the growth of GDP in 2018 was negative (-0.5 pp.); however, the scale of the negative input of the foreign trade component over the course of last year was noticeably lower than in 2015–2017. It should also be noted in this connection that the cyclical component in 2018 remained at the same level as in 2017 (approximately 1.2 pp.), which is indicative of a persistent trend towards smooth cyclical economic growth.

Thus, the results of GDP growth rate decomposition demonstrate that in 2018, its growth was produced not by the combined inputs of one-time internal factors (as this must have translated into the acceleration of the cyclical component – or, due to the

methodology's shortcomings, that of the TFP index), but rather by the improving situation in global commodity markets. The movement patterns of the structural and cyclical components of GDP are rather smooth and compatible with the hypothesis of a slow but sustainable elimination, across the economy, of the consequences of the 2014–2015 crisis, and its adaptation to the conditions shaped by the imposed economic sanctions and the new (lower) hydrocarbon prices.

Since the RF Ministry of Economic Development, in its forecast, is oriented to a plunge in oil prices in 2019, and the current oil prices are indeed somewhat below their average annual index for 2018, the increasing negative input of the foreign trade component in the growth rate of GDP appears to be quite logical; however, for the rate of economic growth to plunge to the level of 1.0–1.3 percent, as seen from *Fig. 39*, a substantial slowdown of the cyclical component will be necessary (because the cyclical component of growth can be considered to be sufficiently stable, it could probably become slower only in response to some serious external and internal negative shocks), or a reversal of the current trend in the structural component's movement pattern (the TFP index, because the capital and labor force movement patterns are largely driven by inertia). In absence of such negative shocks on the part of its cyclical or structural components, the GDP growth rate in 2019 will remain within the range of 1.7–2.0 percent.

For the purpose of our analysis of the current situation in the Russian economy relative to its potential growth pattern, we estimated the output gap for GDP (*Fig. 40*). The output gap is understood as the difference between the actual GDP (projections for 2019–2024) in constant prices from structural GDP, i.e. the hypothetical GDP value calculated on the basis of its structural growth rate data derived by means of decomposing the GDP growth rate. So, the output gap increases (and shifts to positive zone) if the current rate of GDP growth (including its foreign trade and cyclical components) is higher than the structural rate of growth; and vice versa, it shrinks and moves to negative zone if the current rate of GDP growth in response to the negative inputs of its foreign trade and/or cyclical components plunges below the structural rate of growth.

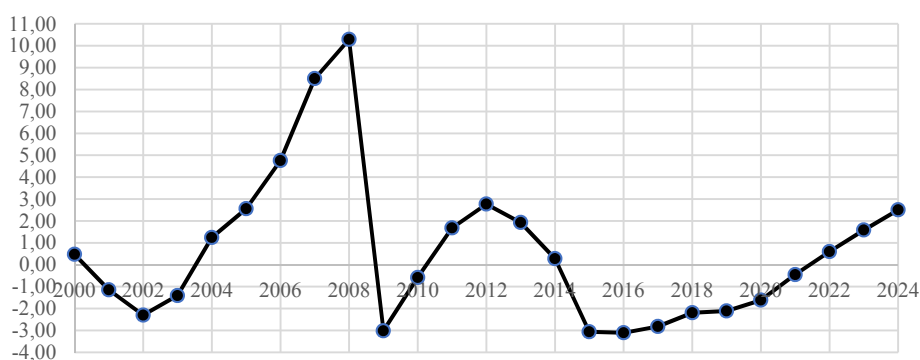


Fig. 40. The output gap in 2000–2024 (as percentage of GDP, baseline scenario)

Source: own calculations.

As seen from *Fig. 40*, from 2015 onwards the Russian economy has been demonstrating a negative output gap (in spite of a slowdown in the structural growth rate), and the output index of the national economy is approximately 2.0–3.0 percent below its potential value. In such a situation, the government policy appears to be quite logical, and primarily the budgetary policy, which aims at increasing budget-funded investments and promoting the investment activity of state-owned companies subordinated to development institutions and companies with controlling state stakes.

In accordance with the RF Ministry of Economic Development's baseline scenario, the negative output gap is expected to completely disappear in 2021–2022 – that is, during the first few years after the Russian economy has achieved its desired rate of growth not lower than 3.0 percent per annum. In 2022–2024, the output gap is to become positive, and then to promptly increase to 2.5–3.0 percent, which is comparable with the situation in 2011–2013 when the Russian economy began to rapidly lose its external and internal competitive capacity due to the quickly depleting growth factors and the increasing domestic production costs. However, the output gap will become totally different in nature: in 2011–2013, the economy overheating was caused by high prices for oil and other Russian exports, whereas in 2022–2024, in face of a moderate external situation, growth in the economy above the fundamentally substantiated values may occur only in response to positive phase of the business cycle. The latter is extremely sensitive to any increases in labor costs resulting from the unemployment rate decline below its natural level, deficit of investment resources in the domestic financial market (in conditions of externally imposed financial sanctions), low consumer activity, and so on. In other words, over the period 2022–2024 the Russian economy will be faced with a situation where, even if the growth rate is relatively low (below 3.5 percent per annum), any additional stimuli or accidental acceleration of economic growth (as a result of an unforeseen positive shock) may promptly translate into a noticeable 'overheating' and, consequently, into a sharp slowdown in the cyclical component growth rate and a threat of a new plunge of the growth rate of GDP below 3.0 percent.

The risk of rapid overheating of the economy can be avoided, and sustainable economic development with the growth rate of GDP not lower than 3.5–4.0 percent per annum ensured only through increasing the growth rate of the structural component. It is obvious that over the next 3 to 5 years, the long-term demographic trends will impose strong constraints on the labor market input in the structural growth rate, and it is unlikely that alongside the continuing financial and economic sanctions the growth rate of fixed investment may rise above its target index set in the baseline scenario of the RF Ministry of Economic Development and the indices applied in our calculations (6.5–8.0 percent per annum). So, the main factor capable of invigorating the structural component of economic growth rate in the Russian Federation over the period under consideration can only be the growth of total factor productivity, including a radical increase in the efficiency of government expenditure and the performance of state-owned companies, as well as the use of state-of-the-art technologies in boosting private entrepreneurial initiatives.

