

# MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

## TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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## Monitoring of Russia's Economic Outlook

**Monitoring** has been written by experts of Gaidar Institute for Economic Policy (Gaidar Institute) and Russian Presidential Academy of National Economy and Public Administration (RANEPA)

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**RANEPA**  
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## TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

Though there is no risk of a surge in the rate of inflation in sight, the RF Ministry of Finance easily borrows on the market on favorable terms, sanctions against Russia have not been toughened and the Central Bank of Russia is likely to reduce the key rate again, the desirable economic dynamics or simply the investment activities leave much to be desired in the existing political and economic conditions.

In this context, the evident risk is the desire to largely stimulate growth in its most comprehensible and familiar forms, namely, in the form of large and high-profile (building) projects. So, logically, it is highly likely that projects which could hardly emerge (and the more so be approved) in other conditions can now materialize and secure approval. Suppose, a trillion requested and partially approved for the logistic scheme to build up exports of coal amid completely uncertain market situation, explicit shrinking of markets and highly volatile prices is to be financed one way or another by the government. Meanwhile, risks of resource environment again have been demonstrated recently when gas prices decreased by more than half and only low current costs of Gazprom allow to perform with small 'plus' albeit with a prospect of export revenues decrease. Such low prices were not observed during last decade and nobody predicted them.

At the same time, the gas market lacks international mechanism of coordination, which appeared on the oil market not without Russia's efforts. Though the extension of the OPEC+ agreement for another nine months failed to stimulate growth in prices, it is still a factor of relative stability. Note that the Russian domestic fuel market lacks such qualities. The agreement on freezing of prices of petrol and diesel fuel which expired by the beginning of July is now replaced by producers' pledge to stay within the limits of the rate of inflation, but the confidence in such promises and the existing regulation mechanism is not, to put it mildly, at a very high level.

Our authors take a critical approach to the absorbing mechanism which is meant to facilitate moderate pricing dynamics, the more so its parameters have not been completely defined. In this factor, they see the risk of a more active utilization of the practice of "manual regulation" of the fuel market and freezing of fuel prices. The source of funding of this mechanism is not approved, either. Experts of the Gaidar Institute have analyzed the effects of introduction of the discussed options of funding and come to the conclusion that independent oil refineries will be hit the worst in any case. They have serious doubts about the prospect of a possible utilization of financial resources of the National Welfare Fund.


As an alternative, a tax maneuver mode developed by researchers of the Gaidar institute is proposed. In their opinion, it permits to achieve a substantial budget effect, reduce costs on oil refining subsidies, diminish growth in retail prices and avoid the "manual regulation" of the fuel market.

Experts who analyzed the dynamics of the Russian foreign trade in January–April 2019 point out that both exports and imports remained virtually at

## Monitoring of Russia's Economic Outlook

the same level as in the relevant period a year before. Note that the share of exports of fuel was equal to 65.5% of the value of all export supplies. As regards the Russian non-fuel exports, after the recession of 2014–2016 was overcome they returned to the pre-crisis level of 2013, however, no further growth was observed. Proceeding from this situation, a conclusion is made that growth in that segment was of a recovery nature.

As regards the G20 Osaka Summit, experts positively assess its results (including the signed documents). They believe that despite geopolitical tensions and trade conflicts risks can be smoothed over.

Among the research carried out by the RANEPA's experts was the analysis of the prospects of development of agricultural cooperation, including the establishment of relevant competence centers in different regions of Russia. According to experts, to receive the required effect it would be advisable to reorient such centers' operations to other target groups of agricultural producers, take more adequately into account the existing potential of agricultural cooperation and carry out further training of such centers' employees. 

# 1. TAX MANEUVER IN THE OIL SECTOR: RISKS OF 'MANUAL CONTROL'

A.Kaukin, E.Miller

*The term of an agreement signed by the Federal Anti-Monopoly Service (FAS), Minenergo, and oil companies on price freeze on petrol and diesel fuel expired on July 1, 2019. It is envisaged that the damping mechanism will ensure the price growth in line with inflation in the months to come although the parameters of such mechanism have not been defined. Delaying with decision making on this issue moreover in the context of potential deterioration of the macroeconomic conditions can increase risks for a strong possibility of 'manual control' and price freeze<sup>1</sup>.*

The agreement on petroleum products price freeze effective though late June will not be extended. The government and market participants have agreed on an alternative mechanism aimed at stemming prices: adjusting the damping excise tax against the reverse excise tax received by refining companies in case of observation of a number of conditions (supply of petrol to the domestic market, being under sanctions, and upgrade programs). The damping compensation aimed to secure attractiveness for the oil companies of fuel supply to the domestic market in order to contain price spike on petroleum products (when the export price goes above certain fixed by law value the oil companies receive compensation from the budget – and vice versa) was introduced already in January 1, 2019, however, calculation parameters established by law have resulted in refining companies to make additional payments instead of the government.

Duma must adopt draft law on the adjustment in the calculation formula for the damping compensation before the end of the Spring session (i.e. before July 28). This gives time for coordination of financing sources: The Finance Ministry proposes to raise the MET rate from 2020 and not allocate as was envisaged during the discussion additional funds for subsidizing oil refining from the National Welfare Fund (NWF), The Energy Ministry is against subsidizing at the expense of the oil production. Moreover, damper application regarding kerosene for subsidizing air transport is being analyzed.

Gaidar Institute experts have analyzed the effects from each of the scenarios of damper financing using the economy of several domestic refineries:

1. Financing by way of NWF.
2. Financing by way of MET rate rise in 2020<sup>2</sup>. In this case:
  - a) Vertically-integrated oil companies (VIOC) price growth on the oil production transfer on the entire market;
  - b) VINK price growth in the oil refining sector transfer only on independent refineries.

Calculations (see Annex to the article) demonstrate that the independent refineries face high risks of critical decrease of profitability in case of all scenarios (this is well illustrated by the current situation with Antipinsky refinery),

1 See in detail about negative effects of price freeze in: Zhemkova A., Idrisov G., Kaukin A., Miller E. Price freeze on petroleum products—tax maneuver halt? / Russia's Economic Development. 2019. Vol. 26. No. 1. P. 31–35.

2 Rise of MET is equivalent to an increase of damping compensation.

which, in its turn, raises the likelihood of the sector's centralization growth. However, under the financing of damping compensation by raising the MET rate the situation of independent refineries becomes especially unfavorable due to raising by the VIOC of domestic oil prices. Unlike independent refineries risks for enterprises-member of VIOC even under low production efficiency are not so high. Both versions of financing the damping compensation actually are far from perfect. In the event of the MET rate rise subsidizing of refineries at the expense of the oil production occurs which in the context of vertically integrated oil companies will negatively affect solely independent refineries. In the event of using the NWF means VIOC actually get back part of natural resource rent taken by the state (owner of the resources) by means of taxes. This being said, the possibility of using the NWF means poorly relates to the NWS objectives.

It should be noted that lacking final taxation parameters of the oil and refining sectors stated by law assessment of the consequences of reforms should be viewed as a preliminary one. Nevertheless, ongoing for around a year discussion and search for solution which would have satisfied all interested parties entails the uncertainty growth among the market participants and potentially can both lead to a regime of constant 'manual control' of the sector and consequently and to the failure to achieve original objectives of the oil industry reform – increase of efficiency in domestic oil refining. As an alternative to the current reform plan of the sector's taxation can be configuration of the tax maneuver proposed by the Gaidar Institute experts:

1. The tax maneuver to be carried out over 6 years from 2019–2024;
2. Export customs duties on crude oil and petroleum products are abolished all at once in 2019;
3. Simultaneously with the abolishment of the export customs duties on crude oil and petroleum products the MET rate goes up by the amount equivalent the decrease of the export customs duty on crude oil;
4. Prior to the reform subsidy to refineries are introduced aimed at maintaining the sector at the average level. Subsidy is given to all refineries in proportion of incoming crude oil volumes. The amount of subsidy if decreasing lineally to the total abolishment in 2024;
5. Excises rate are decreasing in such a way that the retail prices would grow within the limits of inflation.

This version of reform, to our mind, will allow: achieve (*Table 1*) higher aggregate total budgetary effect over 6 years, decrease spending on subsidizing of domestic refineries, cut price growth on petroleum products on the retail market. Moreover, this version envisages zero 'manual control' of the market of the oil and petroleum products production which reduces uncertainty for investors and entrepreneurs and small growth of domestic prices on crude oil and petroleum products promotes more careful use of resources. However, under the implementation of this version receipts to the road funds will fall (due to reduction of excise payments). As an alternative of their replenishment, interbudgetary transfers and/or targeted financing.

## 1. Tax Maneuver In The Oil Sector: Risks Of 'Manual Control'

Table 1

### Final effect from tax maneuver according to Gaidar Institute version

Calculation according to Institute's version		2019	2020	2021	2022	2023	2024
Export customs duty on crude oil and petroleum products	% GDP	0.00	0.00	0.00	0.00	0.00	0.00
Excise on petroleum products	% GDP	1.20	1.23	1.24	1.30	1.30	1.31
MET on crude oil	% GDP	11.11	11.11	11.11	11.11	11.11	11.11
Increment of total receipts into the budget	% GDP	1.84	1.87	1.88	1.93	1.94	1.95
Total subsidizing of refineries, including:	% GDP	-1.02	-0.85	-0.67	-0.49	-0.32	-0.14
subsidy	% GDP	-1.00	-0.80	-0.60	-0.40	-0.20	0.00
price retention on the back of excise	% GDP	-0.02	-0.05	-0.07	-0.09	-0.12	-0.14
Damping compensation	% GDP	0.00	0.00	0.00	0.00	0.00	0.00
Final effect from tax maneuver	% GDP	0.84	1.07	1.28	1.53	1.74	1.95
Retail price on gasoline	Rb per liter	47.91	48.06	48.22	48.37	48.52	48.67

Source: own calculations.

Table 2

### Final effect of tax maneuver according to current legislation

Calculation according to current legislation		2019	2020	2021	2022	2023	2024
Export customs duty on crude oil and petroleum products	% GDP	2.07	1.66	1.24	0.83	0.42	0.00
Excise on petroleum products	% GDP	1.22	1.28	1.31	1.39	1.42	1.45
MET on crude oil	% GDP	7.44	8.17	8.91	9.64	10.38	11.11
Increment of total receipts into budget	% GDP	0.49	1.10	1.69	2.32	2.90	3.49
Total subsidizing of refineries, including:	% GDP	-0.33	-0.48	-0.63	-0.88	-1.12	-1.36
reverse excise	% GDP	-0.21	-0.42	-0.62	-0.83	-1.04	-1.25
damping compensation (gasoline)	% GDP	0.06	0.01	0.04	0.01	-0.01	-0.04
damping compensation (diesel)	% GDP	-0.18	-0.07	-0.05	-0.05	-0.06	-0.07
Final effect from tax maneuver	% GDP	0.16	0.63	1.06	1.45	1.80	2.14
Retail price on gasoline	Rb per liter	48.36	48.97	49.58	50.19	50.80	51.41

Source: own calculations.

### Annex

As an indicator reflecting the state of the refining economy we calculated the value of 'proxy GVA' (arbitrary approximation value of gross value added) equaling the difference between the cost of total petroleum products production and the cost of the incoming crude oil. Calculation were made taking into consideration factors under which from July 1, 2019: 1) agreement on price freeze on the wholesale market terminated; 2) took place correction of the formula for damping compensation for the parameters of average wholesale producer prices on the territory of the Russian Federation of gasoline and diesel fuel which decreased from Rb 56 thousand to 51 thousand per ton and from Rb 50 thousand to 46 thousand per ton, respectively; 3) the share of compensation for the oil producers for 2019 of the difference between export and fixed gasoline and diesel fuel price retained constant aimed at checking price growth on the domestic market at the level of 60%, and for 2021 and 2022 it was raised to 68% and 65%, respectively<sup>1</sup>; 4) damper on aviation fuel was not introduced. Calculations were based on a fixed exchange rate – Rb 62.93 per USD and oil price at USD71.38 per barrel and parameters of export customs duties and

<sup>1</sup> Finance Ministry and Energy Ministry agreed on the mechanism for compensation to oil producers // Vedomosti. 25.06.2019. [<https://www.vedomosti.ru/business/news/2019/06/25/805017-minfin-i-minenergo>].

excise payments approved by the current law<sup>1</sup>. As an example for calculation we took: Tuapsinsky oil refinery (PJSC 'OC Rosneft'), Nizhegorodneftepererabotka (PJSC 'OC Lukoil'), and Antipinsky oil refinery (independent oil refinery).

Fig. 1 demonstrates calculation results of 'proxy GVA' for the oil refineries in case of assistance to the oil refining industry by way of NWF. It can be seen that Nizhegorodsky oil refinery owned by Lukoil shows positive value added (staying above average minimal all-time values when the oil refinery continued operating<sup>2</sup>). 'Proxy GVA' for Tuapsinsky oil refinery and Antipinsky oil refinery stay within negative values (even taking into consideration subsidy in terms of reverse excise and damping compensation), but do not cross the average minimum of 'proxy GVA' groupwise, in other words they continue operating during tax reform in the oil sector. To note, unlike Antipinsky oil refinery Tuapsinsky oil refinery forms part of VIOC (PJSC 'OC Rosneft'), i.e. refining costs can be redistributed across the entire supply chain: actual line of 'proxy GVA' can be above one for Tuapsinsky oil refinery. Significant drawback of the analyzed version for financing payments on damping compensation is the source of financing to assist oil refining which envisages its non-target use<sup>3</sup>.

Fig. 2 and 3 demonstrate versions of calculation of 'proxy GVA' for oil refineries in case of assistance of the oil refining industry

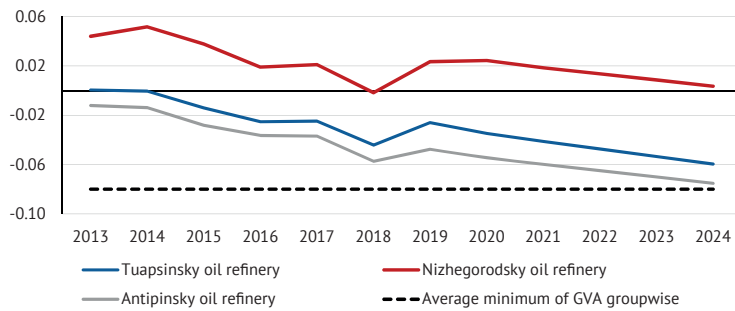


Fig. 1. Version 1: 'proxy GVA' for oil refineries in case of assistance of oil refining industry by way of NWF (taking into account subsidy in terms of reverse excise and damping compensation)

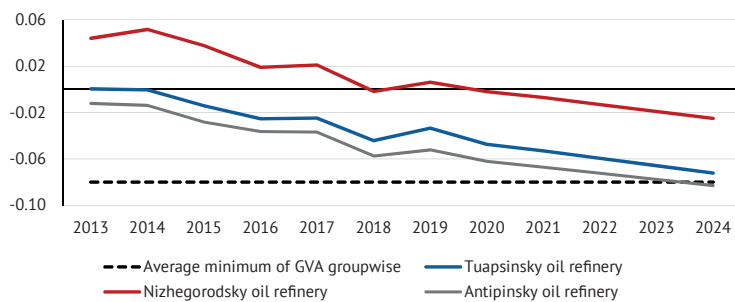


Fig. 2. Version 2a: 'proxy GVA' for oil refineries in case of oil refining assistance by way of MET rate rise, price growth on crude oil is equal for all refineries (taking into account subsidy in terms of reverse excise and damping compensation)

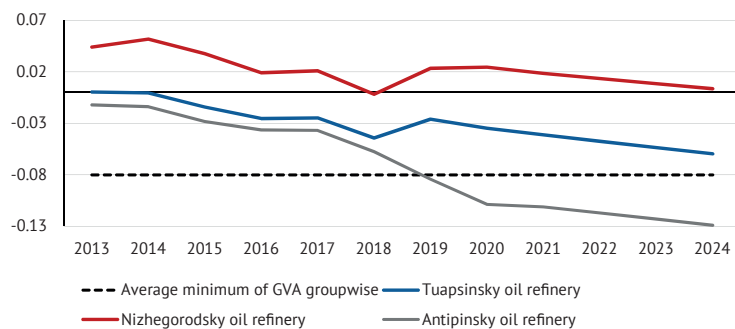


Fig. 3. Version 2b: 'proxy GVA' of oil refineries in case of refining industry assistance by way of MET rate rise, price growth on crude oil is only for independent oil refineries (taking into account subsidy in terms of reverse excise and damping compensation)

- 1 Tax Code of the Russian Federation (second part) of 05.08.2000 No. 117-FZ (ver. of 17.06.2019); RF Law of 21.05.1993 No. 5003-1 "On customs tariff" (ver. of 01.05.2019).
- 2 All-time minimal values of the calculated rate of proxy GVA can be negative mainly owing to the fact that many Russian oil refineries form part of vertically-integrated companies which can redistribute profit and costs within their business segments.
- 3 "National wealth fund forms part of the federal budget. The fund is meant to be part of the sustainable mechanism for the citizens of the Russian Federation pensions for long-term period. Objectives of the National wealth fund are co-financing of voluntary pension savings of the citizens of the Russian Federation and ensuring balance (deficiency payments) of the RF Pension bund budget". [<https://www.minfin.ru/ru/performance/nationalwealthfund/mission/>]



## 1. Tax Maneuver In The Oil Sector: Risks Of 'Manual Control'

*by way of damping compensation financed by MET rate rise in 2020. The main difference of the analyzed above version consists in the fact that in case of the MET rate rise on crude oil the oil companies highly likely will try to increase price on supplied crude oil on the domestic market, i.e. actually transfer additional tax burden on the oil refining segment (which according to the original idea of maneuver should become a beneficiary of the reform). In version 2a VIOC increase prices on crude oil equally for each oil refinery, and in version 2b solely independent oil refineries face price growth<sup>1</sup>.*

*In both cases values of 'proxy GVA' for Antipinsky oil refinery cross the average minimum of 'proxy GVA' groupwise during the entire period of reform of the taxation system of the oil sector, which actually underlines its potential exit from the market, i.e. subsidization of the oil refining by way of oil production can result in the sector's consolidation. ▀*

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1 Authors understand that version 2b is unfeasible to the full extent because VIOC measures will be noticed by FAS, however this calculation gives chance to illustrate possible development trends on the market.

## 2. THE FOREIGN TRADE IN JANUARY–APRIL: RECOVERY GROWTH OF NON-OIL EXPORTS

A.Knobel, A.Firanchuk

Recovery growth of foreign trade after decline of 2014–2016 ended. In the first four months of 2019 the foreign trade turnover stayed the same as in the same period of the previous year: fuel exports grew insignificantly (+2.2%), exports of other goods declined (-2.4%), imports remain at the level of the corresponding period of 2018 (-0.9%).

### The Dynamics of Exports and Imports

Exports in January–April 2019 were at the same level as in the corresponding period of the previous year. In monetary terms exports constituted \$140.2bn (105.4% in January–April 2018 and 82.1% of January–April 2013). Fuel exports stabilized (+2.2% from the corresponding period of 2018) as well as exports of other goods (-2.4%). In monetary terms fuel exports constituted \$91.8bn, while exports of other goods – \$48.4bn (Fig. 1), the share of fuel in aggregate exports in the first four months of 2019 amounted to 65.5%.

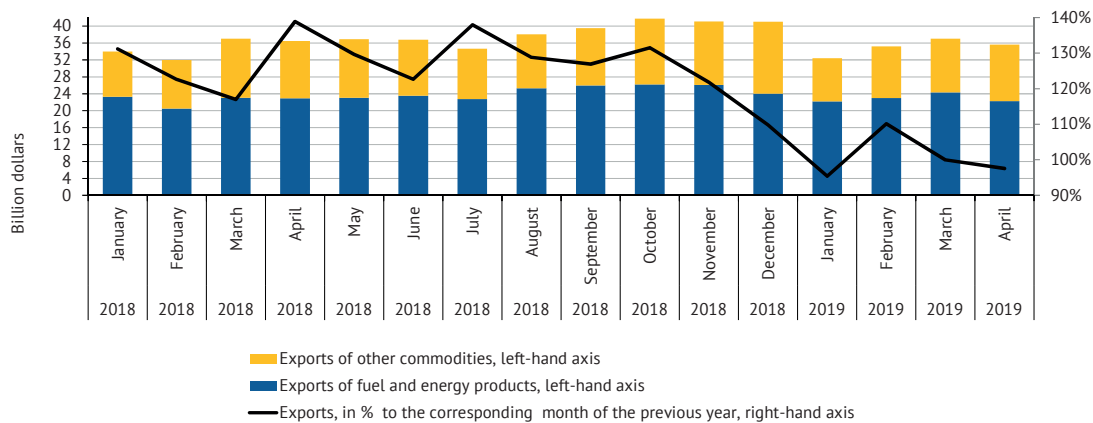


Fig. 1. Dynamics of Russian exports in 2018–2019

Source: own calculations based on the data released by the Federal Customs Service.

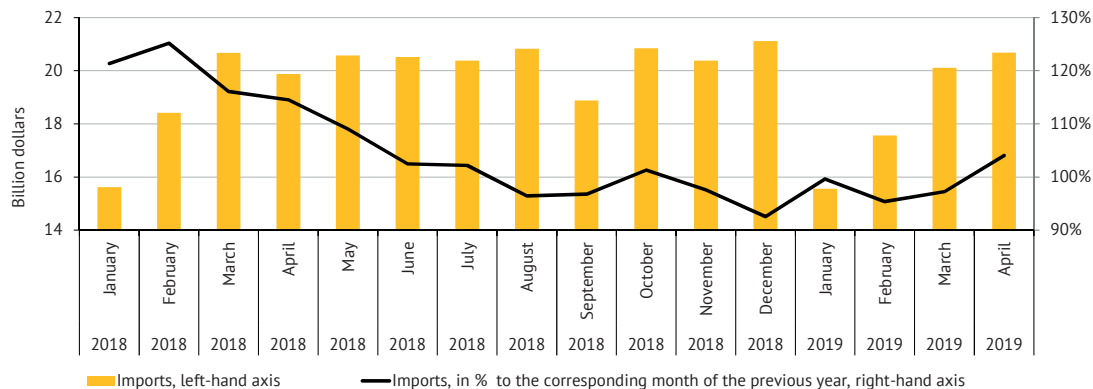


Fig. 2. Dynamics of Russian import 2018–2019

Source: own calculations based on the data of the Federal Customs Service.

## 2. The Foreign Trade In January–April: Recovery Growth Of Non-Oil Exports

After coping with the 2014–2016 downturn, the volume of Russian non-oil exports returned to the pre-crisis level of 2013. However, there was no further growth. Therefore, substantial growth of non-oil exports seen in recent years was only of recovery nature, similar to the trade recovery observed in 2011–2012.

Imports in January–April 2019 also remained at the same level of the previous year, amounting to \$73.2bn making up 99.1% of January–April 2018, and 74% of January–April 2013 (Fig. 2). Imports dynamics indicate stabilization: average change of volume of imports (to the same month of the previous year) for May 2018 – April 2019 constituted -0.4%.

### Volumes and Structure of Exports

Volumes and structure of exports observed in January–April 2019 are presented in Table 1. Export indices codified by commodity aggregates marked out by the Federal Customs Service (FCS) (in Table 1 volumes of exports of secret commodity group are shown separately), changed in different directions: from growth in «Textile» commodity group (+12%) to a decline in commodity group «Rawhide» (-34%).

Table 1

#### Volume and commodity structure of Russian exports

Position name	Volumes of exports in January-April, million USD			Change of exports volume in January-April 2019 against January-April 2018, %	Share of commodity group, %
	2013	2018	2019		
Food products and agricultural primary products (except textile)	4 081	7 364	7 369	0	5.3
Mineral products	122 659	90 873	93 439	3	66.6
Chemical products, natural rubber	9 986	8 413	8 448	0	6.0
Rawhide, furs and fur articles	248	103	69	-34	0.05
Timber and pulp and paper products	3 367	4 365	4 293	-2	3.1
Textile, textile goods and footwear	215	351	392	12	0.28
Precious stones and metals and articles made thereof	3833	3727	3484	-7	2.5
Metals and fabricated metal articles	13 603	14 868	13 548	-9	9.7
Machines, equipment and transportation vehicles (without secret group)	6 739	5 923	5 545	-6	4.0
Including:					
Nuclear reactors, boilers, mechanical equipment; turbines, internal combustion engines; household appliances	2 469	2 357	2 154	-9	1.5
Electric cars and equipment, its parts	1 336	1 478	1 370	-7	1.0
Railway vehicles and their parts; track equipment and devices for railways	226	349	261	-25	0.2
Vehicles for land transport, except railway, and their parts	2 122	896	1 173	31	0.8
Vessels, boats and floating structures	104	316	140	-56	0.1
Optical instruments and gear	484	526	447	-15	0.3
Other goods (without secret group)	609	794	818	3	0.6
Secret commodity group*	3 657	2 840	2 816	-1	2.0
Export – total	168 621	139 535	140 222	0.5	100

Source: own calculations based on the data released by the Federal Customs Service.

\* Secret commodity group mostly consists of: aircrafts and parts, weaponry and ammunition, tanks and other combat vehicles. This commodity group in the FCS aggregate statistics counts among «Machines, equipment and transportation vehicles» and «Other goods».

Export of the majority of commodity groups stayed at the level of the corresponding period of the previous year: «Food products and agricultural primary products» (+0.1%), «mineral products» (+2.8%), «chemical products» (+0.4%), «timber» (-1.7%), «other goods (without secret group)» (+3.0%), secret commodity group (-0.9%).

High-tech export is in commodity group «machines, equipment and transportation vehicles» (without secret positions). Export of that commodity group declined by 6.4%.

### Export Prices

Table 2 presents data on the change of prices, volumes and total worth of exports of main exported goods.

Stabilization of export of **mineral products** (+2.8%) is due both to hard prices, and relatively stable volume of exports, except the natural gas.

Export of **food products and agricultural primary products** stayed unchanged despite decline in exports of wheat and meslin (by 19%) which occurred due to downturn of physical quantities of exports (-35%).

Export of **chemical products** was ambiguous, but overall the result was neutral. Export of mineral and nitrogen fertilizers increased (by 38%), mainly due to price rise. At the same time export of mixed fertilizers demonstrated insignificant decrease (-3%) which was caused by a reduction in the volume of exports.

Overall, negative price dynamic of **timber, pulp and paper products** along with variety of trends of volume of exports led to insignificant decrease in total worth of exports (-1.7%).

Contraction of export of **metals** (by 8.9%) is due to 5–13% price reduction on main types of metal and metal products, except price on cast iron which stayed at the last year's level. Dynamic of the physical volumes of supplies varied: negative for ferrous metals (-6%) and positive for non-ferrous metals (from +11 to +22%).

### Non-fuel, non-energy export

Q1 2019 demonstrated the non-energy export decreased by 1.6%. Reduction was noted in the following commodities: metals (-1.9%), chemical industry (-5.7%), food products (-1.1%). Change in total worth of exports of other goods did not exceed 1%. Such dynamic is very different compared to quick growth of the non-energy export in previous years. That growth was due to positive dynamics of world prices on aforementioned commodities (foremost metal and chemical product)<sup>1</sup> and recovery dynamic after steep downfall posted in 2015–2017.

### Exchange rate and import

Significant influence of volatility of the real ruble exchange rate against the American currency on value dollar volumes of imports was observed for many years. This dependence was clearly revealed during considerable changes in the ruble exchange rate reported in 2014–2017 (Fig. 3). However, lately that dependence weakened. For example, in 2018, imports showed moderate growth (compared to the previous year) despite a slide of the real ruble exchange rate. While in January–April 2019 imports stayed stable while the real ruble exchange rate depreciated by 9.1% (compared to the same period of the previous year).

<sup>1</sup> See A.Y. Knobel, A.S. Firanchuk, A.A. Lavrisheva, Foreign trade of Russia in 2018: growth of non-resource non-energy exports // Russian Economic Developments. 2019. No. 4. P. 11–19.

## 2. The Foreign Trade In January–April: Recovery Growth Of Non-Oil Exports

Table 2

Change in prices and volumes of the main export goods in January–April 2019

FEACN code	Position name	Price		Price change, %	Change in volume, %	Change in value, %	Share in exports in January–April 2019, %
		January–April 2018	January–April 2019				
Food products							
1001	Wheat and meslin, USD per ton	181	223	23	-35	-19	1.3
Fuel							
2701	Coal, USD per ton	80	85	6	14	21	4.2
2709	Crude oil, USD per ton	462	452	-2	2	0	28
2710	Petrochemicals, USD per ton	477	468	-2	-6	-8	16
2711110000	Liquefied natural gas, USD/cubic meters	133	158	19	108	147	2.6
2711210000	Natural gas, USD/thousand cubic meters	206	222	8	-4	3	12
Chemical products							
3102	Nitrogen mineral fertilizers, USD per ton	199	221	11	1	13	0.7
3104	Potassic mineral fertilizers, USD per ton	207	253	22	13	38	0.4
3105	Mixed mineral fertilizers, USD per ton	281	310	10	-12	-3	0.8
2814100000	Anhydrous ammonia, USD per ton	270	283	5	3	8	0.3
4002	Synthetic rubber, USD per ton	1629	1610	-1	4	3	0.4
Timber and wood articles							
4403	Unprocessed timber, USD/cubic meters	88	76	-14	-12	-24	0.3
4407	Processed timber, USD per ton	240	232	-3	11	7	1.0
4412	Glued wood, USD/cubic meter	502	449	-10	-1	-11	0.3
4702-4704	Wood pulp, USD per ton	703	563	-20	1	-19	0.3
4801	Newsprint, USD per ton	483	505	5	20	25	0.2
Metals and fabricated metal articles							
72	Ferrous metals, USD per ton	501	461	-8	-6	-13	5
72 (кроме 7201-7204)	Ferrous metals (except for cast iron, ferro-alloy, waste and scrap), USD per ton	563	502	-11	-6	-16	3
7201	Cast iron, USD per ton	353	352	0	-21	-22	0.4
7202	Ferro-alloys, USD per ton	1682	1606	-5	21	16	0.3
7207	Carbon steel semi-products, USD per ton	500	433	-13	-3	-16	1.6
7208-7212	Carbon steel flat rolled products, USD per ton	608	564	-7	-13	-19	0.9
7403	Refined copper, USD per ton	6859	6163	-10	20	8	1.2
7502	Non-refined nickel, USD per ton	13404	12321	-8	11	2	0.4
7601	Non-refined aluminum, USD per ton	1926	1774	-8	22	12	1.6

Source: own calculations based on the data of the Federal Customs Service.

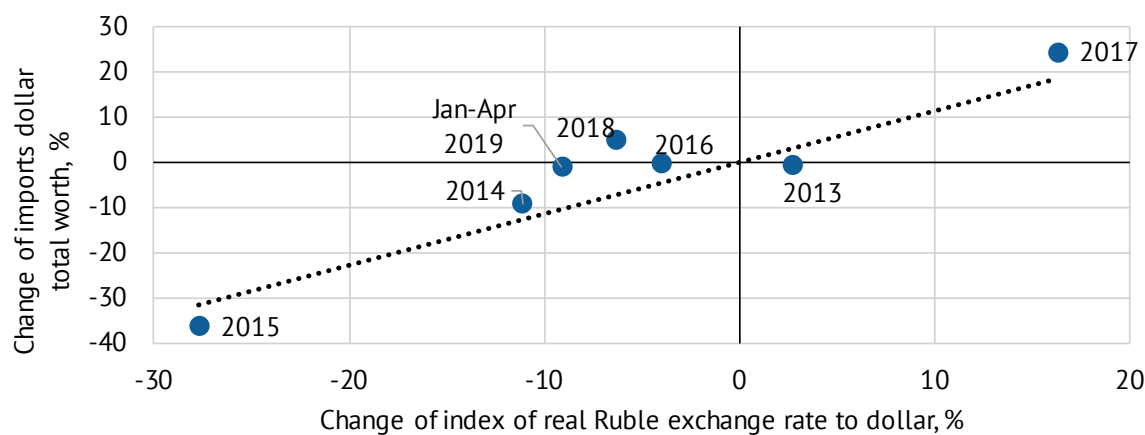


Fig. 3. Dynamic of imports and the real ruble exchange rate in 2013–2019, %

Source: own calculations based on the data released by the Federal Customs Service and the Bank of Russia.

### 3. THE RESULTS OF THE G20 SUMMIT: MITIGATION OF RISKS

M.Larionova

*The G20 Osaka Summit can be regarded as success. Despite geopolitical tensions, the G20 succeeded in approving and taking more than one hundred decisions which implementation is expected to facilitate mitigations of risks to sustainable growth.*

The preparation for the 14<sup>th</sup> G20 Summit took place amid the prevalence of old and newly emerged risks to sustainable economic growth: aggravation of inequality problems; a high level of public and private debts; existing current account imbalances; increased man-made burden on the environment and the escalation of protectionist measures. The summit has become a new test for the G20 to concentrate its political will for endorsement of collective decisions.

Shinzo Abe, Prime Minister of Japan, formulated the following priorities of the presidency: establishment of the international regime for a free data flow with a high level of trust and “Society 5.0” based on the comprehensive introduction of digital technologies<sup>1</sup>. Intensive work with all the partners was aimed to facilitate the G20 to start among other things the process of development of multilateral trade rules for the digital economy, endorse decisions on the WTO reform and promote further the multilateral trade system.

#### Trade

Dramatic growth in the volume of trade affected by the G20's protectionist measures (Fig. 1) has increased risks to sustainable growth. In the context of new tariff barriers introduced by the US and China's counter measures, which both, by the IMF's estimate, may cost the global economy 0.5% of GDP in 2020<sup>2</sup>, the trade issues were on the top of the summit's agenda.

The maximum objective included the approval of decisions on restraining the escalation of protectionism; rebuilding of confidence in the international trade system; starting of the constructive dialogue in the WTO on the resolution of the crisis in the Dispute Settlement Body; giving of a positive impetus to the WTO negotiations on new initiatives

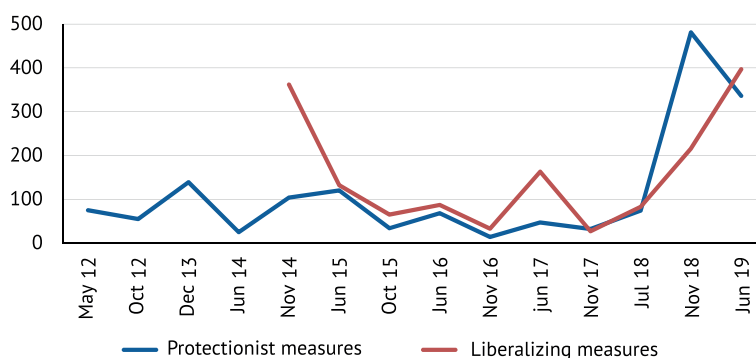


Fig. 1. Dynamics of trade volumes affected by the G20's protectionist measures, 2012–2019, billion US Dollars

Source: Report on G20 Trade Measures (mid-October 2018 to mid-May 2019). URL: [https://www.wto.org/english/news\\_e/news19\\_e/g20\\_wto\\_report\\_june19\\_e.pdf](https://www.wto.org/english/news_e/news19_e/g20_wto_report_june19_e.pdf)

1 Toward a New Era of “Hope-Driven Economy”: the Prime Minister's Keynote Speech at the World Economic Forum Annual Meeting, 23 January 2019. URL: [https://japan.kantei.go.jp/98\\_abe/statement/201901/\\_00003.html](https://japan.kantei.go.jp/98_abe/statement/201901/_00003.html)

2 G-20 Surveillance Note, G-20 Finance Ministers and Central Bank Governors' Meeting June 8–9, 2019, Fukuoka, Japan. URL: <https://www.imf.org/external/np/g20/pdf/2019/060519.pdf>

### 3. The Results Of The G20 Summit: Mitigation Of Risks

(e-commerce, simplification of the investment for development procedures and regulation of the services sector).

The Osaka Declaration documents the intention to establish a free, non-discriminatory, transparent and predictable trade and investment environment and retain the market openness. The leaders reaffirmed their support to the reform of the WTO, including the adoption of measures to facilitate functioning of the dispute settlement system. A positive signal to the markets was a cease-fire in the trade war between the US and China.

#### Digital Economy

The growing contribution of digital technologies to economic growth (Fig. 2), increased competition on the global market of information and communications technologies (ICT) (Fig. 3) and a lack of agreed-upon e-commerce rules have predetermined the relevance of Shinzo Abe's initiative on establishment of the international regime for the free data flow. However, a high degree of distrust between countries expressed in accusations of hacker attacks, theft of intellectual property and use of sanctions against competitor-companies cre-

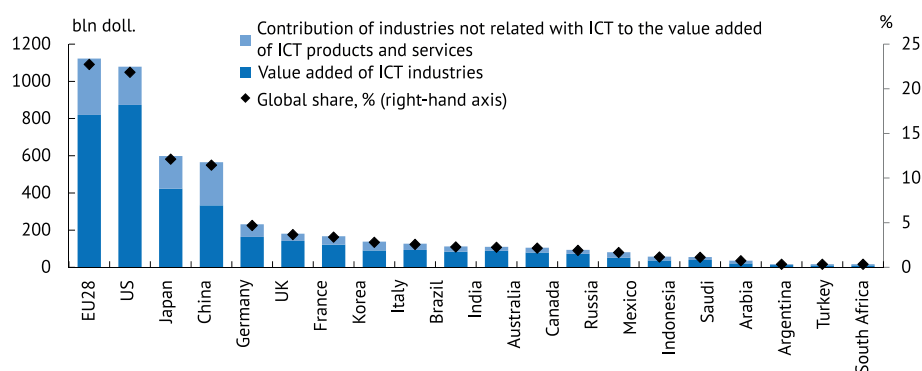


Fig. 2. The contribution of the value added of the ICT sector and indirectly related industries to the economy, 2011.

Source: OECD Science, Technology and Industry Scoreboard 2017. URL: <https://doi.org/10.1787/9789264268821-en>

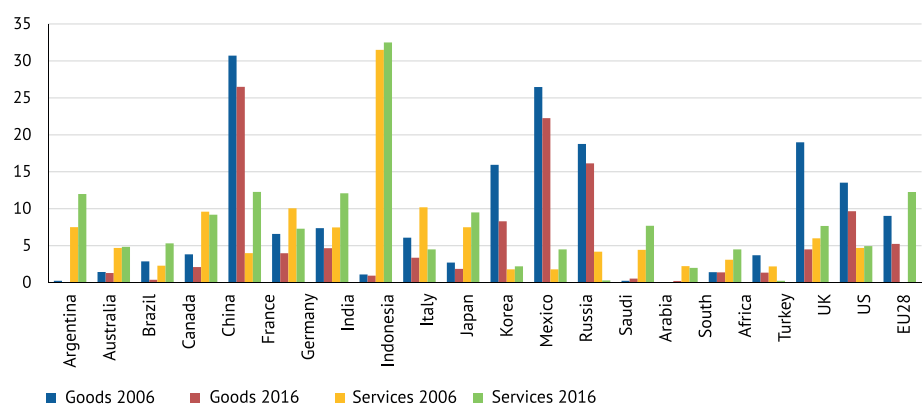


Fig. 3. The share of exports of ICT goods and services in the overall volume of exports in 2006 and 2016, %

Source: UNCTADStat. URL: <https://unctadstat.unctad.org/wds/TableView/tableView.aspx?ReportId=15849>; G20 Toolkit for Measuring the Digital Economy

ated difficulties for the G20 in approving collective approaches to solution of problems of the digital economy.

The G20 leaders' declaration on the digital economy unveiled the start of the Osaka track. The idea of this process is a dialogue on utilization of the potential of the digital economy for promotion of sustainable growth and support to the initiative on development of a multilateral agreement on the trade aspects of e-commerce within the WTO frameworks (formulated by trade ministers of 78 WTO member-states in January 2019)<sup>1</sup>. In the Statement on Preventing Exploitation of the Internet for Terrorism and Violent Extremism Conductive to Terrorism, the G20 leaders called on the online platforms to take a responsible approach and step up efforts to ensure the prevention of streaming, uploading and re-uploading of the materials which proliferated terrorism and violent extremism conducive to terrorism<sup>2</sup>.

### Environment and Energy

The G20 member-states are the largest greenhouse gas emitters and energy users (Fig. 4). Their national and international policies influence the global trends of demand on energy commodities and the extent of man-made burden. The protection of the environment and the switchover to effective and reliable energy consumption modes have always been among the key issues on the G20 agenda since the very first G20 summits. The novelty of the Osaka summit was the joint meeting of energy and environment ministers of the G20 member-states in Karuizawa where "the Osaka Blue Ocean Vision" and the G20 Implementation Framework for Actions on Marine Plastic Litter were endorsed to reduce additional pollution by marine plastic litter to zero by 2050.

The Implementation Framework of Actions on Plastic Litter, the Action Agenda on Adaptation and Resilient Infrastructure, the Innovation Action Plan on Energy Transitions and Global Environment for Sustainable Development, the 3Rs Concept: Reduce, Reuse and Recycle + Renewable and the initiative

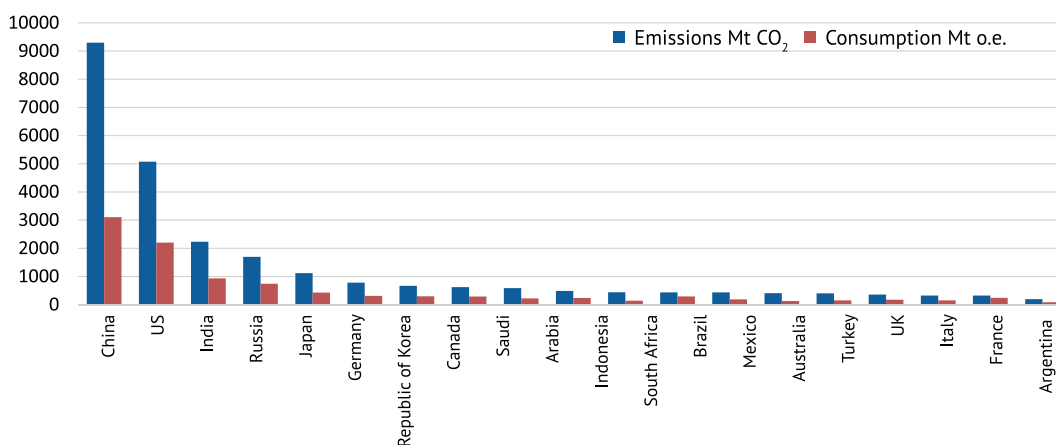


Fig. 4. Energy consumption and emission of CO<sub>2</sub> in the air, 2017

Source: The 2018 Global Energy Statistical Yearbook. URL: <https://yearbook.enerdata.ru/total-energy/world-consumption-statistics.html>, <https://yearbook.enerdata.ru/co2-fuel-combustion/CO2-emissions-data-from-fuel-combustion.html>

1 The Osaka Declaration on the issues of the digital economy. URL: <http://kremlin.ru/supplement/5427>

2 The G20 Osaka Leaders' Statement on Preventing Exploitation of the Internet for Terrorism and Violent Extremism Conductive to Terrorism. URL: <http://kremlin.ru/supplement/5426>



### 3. The Results Of The G20 Summit: Mitigation Of Risks

on development of the Dialogue on the Resource Efficiency Roadmap were endorsed by all the G20 member-states.

After exiting the Paris Climate Agreement, the US declared that it would stop immediately fulfilling its current contribution, however, at the G20 summits in Hamburg (2017) and Buenos Aires (2018) the US reaffirmed “its strong commitment to the approach suggesting simultaneous reduction of emissions, promotion of economic growth and meeting of the energy security requirements”<sup>1</sup>. So, there was no intrigue as regards the US position on climate and energy. In a separate item of the G20 Declaration, it is specified that the US withdraws from the Paris Agreement and “reaffirms its strong commitment to promoting economic growth, energy security and access, and environmental protection”<sup>2</sup>.

The implementation of decisions on transition to efficient modes of consumption and production is of high priority to Russia, too, which is carrying out the *Ecology* national project. Also, it refers to the leaders’ statement on the importance “to ensure global energy security as one of the guiding principles for the transformation of energy systems, including resilience, safety and development of infrastructure and uninterrupted flow of energy from various sources, suppliers and routes”<sup>3</sup>. As regards Russia, the issues of safe transportation of energy are important in terms of building of the North Stream-2, the Turkish Stream and the transit via Ukraine.


#### **The Framework Agreement on Promotion of Growth**

The 20 leaders reaffirmed their commitment to coordinate macroeconomic policy measures; thoroughly verify and flexibly apply all the available instruments of the monetary policy and promote structural reforms to achieve sustainable, balanced and inclusive growth, and safeguard against downside risks of economic growth. The revision of the borrowing limit rules and the principles of market borrowings within the frameworks of the IMF and the World Bank Group was completed.

Also, the G20 endorsed the program of work proposed by the OECD to develop a consensus solution to tax challenges arising from the digitalization of the economy by 2020.

#### **Promotion of Development**

The Osaka Update<sup>4</sup>, the second one after the Hamburg Update of 2017, is the G20 Action Plan on the 2030 Agenda for Sustainable Development<sup>5</sup>. The decisions on promotion of the development include the issues of investment into quality infrastructure, gender equality, healthcare, education, sustainable agriculture, environmental protection, energy and industrial development.

In particular, the G20 reaffirmed its commitment “to moving towards achieving universal health coverage”. Among other things, the leaders reaffirmed their determination to step up efforts to end the epidemics of AIDS, tuberculosis and malaria. For the first time, the importance of providing financial resources to assist developing countries with respect to both mitigation and adaptation in accordance with the Paris Agreement was emphasized in the Declaration. 

1 The G20 Leaders’ Communiqué on the Outputs of the Hamburg Summit (Germany) , 7–8 July 2017 URL: [https://www.ranepa.ru/images/media/g20/2017hamburg/comm\\_2017.pdf](https://www.ranepa.ru/images/media/g20/2017hamburg/comm_2017.pdf)

2 The G20 Osaka Leaders’ Declaration, Item 36. URL: <http://kremlin.ru/supplement/5425>

3 The G20 Osaka Leaders’ Declaration, Item 37. URL: <http://kremlin.ru/supplement/5425>

4 Osaka Update on the G20 Action Plan on the 2030 Agenda for Sustainable Development. URL: [https://www.g20.org/pdf/documents/en/annex\\_11.pdf](https://www.g20.org/pdf/documents/en/annex_11.pdf)

5 Osaka Comprehensive Accountability Report on G20 Development Commitments. URL: [https://www.g20.org/pdf/documents/en/annex\\_13.pdf](https://www.g20.org/pdf/documents/en/annex_13.pdf)

## 4. DEVELOPMENT OF COOPERATIVE FARMING: PATTERN LEADS TO HAULERS

M.Antonova, A.Potapova

*Competence centers in the sphere of agricultural cooperation and assistance to farmers are being set up in various RF regions. Research done by RANEPА experts has demonstrated that the mechanism itself for the creation of such centers and the ideology of their formation can require adjustment.*

Research findings show that centers' activities does not always focus on those target groups of agricultural producers who can deliver desired effect; financing and location of centers do not take into consideration already existing potential for the development of agricultural cooperation; and finally, many of those who are meant to assist agricultural producers in the development of cooperation themselves need additional training. The RF Ministry of Agriculture has got to work on the development of agricultural cooperation and creation of system of assistance to farmers in compliance with the Presidential Executive Order of May 7, 2018, No. 204 "On the National Objectives and Strategic Targets of the Development of the Russian Federation for the period through 2024", as well as federal project "Creation of System of Assistance of Formers and Development of Rural cooperation" in the framework of the national project "Small and Medium-sized Entrepreneurship and Assistance to Individual Entrepreneurial Initiative". Among anticipated results is the increase of the membership base of agricultural consumer cooperatives (ACC) by 2024 by no less than 127.6 thousand persons, in other words by a third (ACC membership base for 2017 constituted 400.5 thousand persons). Setting up of regional competence centers in the sphere of agricultural cooperation and assistance to farmers (hereinafter 'competence centers') was aimed at reaching the set objective. It is planned to establish centers in all RF subjects with equal financing.

Russian Ministry of Agriculture together with JSC 'Corporation SME' developed a common standard for the unification of centers activities. According to the standard the competence centers should provide services to small and medium-sized agricultural enterprises including farmers, agricultural cooperatives, and citizens running private subsidiary farms in rural areas. Up to date creation of the competence centers is underway in 24 regions.

When planning work on creation of centers, it is important first of all to determine who needs assistance in the development of cooperation? Who are the subjects of the competence centers activities? In what areas cooperation should be assisted? How centers should be located across the territory of the country? Will the competence centers have sufficient 'competence' to assist agricultural cooperation?

### **Who needs assistance in the sphere of cooperation**

The Federal Law No.209 "On the Development of Small and Medium-size Entrepreneurship in the Russian Federation" determines SME as:

- Micro-sized enterprise with workers limit at 15 persons and maximum annual earnings (without VAT) of not more than Rb 120mn;

## 4. Development Of Cooperative Farming: Pattern Leads To Haulers

- Small enterprises with workers limit at 100 persons and maximum annual earnings (without VAT) of not more than Rb 800mn;
- Medium-sized enterprises with workers limit at 250 persons and maximum annual earnings (without VAT) of not more than Rb 2bn.

Classical view of cooperation is like that: cooperation is needed for small enterprises which lack a good consultant on technologies; lack equipment, modern storage facilities with washers, boxing, post-harvesting and even product processing; lack employee who deals with shops, markets trying to establish contacts with buyers; lack commercial batch and an assurance of its production in order to be interesting chain store. The aim of the cooperation consists in establishing an organization (agricultural consumer cooperative) aimed at surmounting obstacles on the way of small production.

It is envisaged to develop small and medium-sized entrepreneurship, private farms, and private agricultural businesses in the framework of national and federal projects. In our view, medium businesses should be excluded from the list of those who are targeted by the competence centers. Agricultural enterprises with annual earnings over Rb 800mn purchase means of production wholesale and deal with wholesale buyers (chain stores) individually. As a rule, in this case they do not need to cooperation with other producers. Seldom agricultural enterprise earns from Rb 800mn to Rb 2bn and have 250 workers. For example, in 2016, out of 19 thousand agricultural enterprises merely 1.8% can be referred to medium-sized in earnings terms.

Probably, not all small enterprises should be clients of the competence centers – around half of the enterprises which can be considered small ones are subsidiaries of agro holdings and themselves resolve all issues of marketing promotion. And indeed enterprises with 100 workers outside of agro holdings with average earnings over Rb 280mn (data for 2016) are unlikely to become competence centers' clients. They traditionally are tied to regional plants and cooperation with smaller potential cooperative members is of no interest. In cooperative one member has one vote. Thus, small enterprises numbering 37% of 19 thousand agricultural organizations (data for 2016) should be excluded from potentially interested in cooperation. Microenterprises (there were over 15 thousand such enterprises in 2016) remain potentially interested in cooperation.

Obviously, all farming enterprises, excluding disguised large enterprises (according to peasant farm enterprises (PFE) reporting, there is one PFE with 100 thousand hectares of arable land and 278 workers under 1 member of the enterprise) are potential members of agricultural cooperation.

Therefore, the point that one of the aspects of the competence centers activities is "involvement of SME into agricultural cooperatives" seems not very correct or corresponding to the current market realia. Not medium-sized or even small enterprises can be clients of centers but microenterprises, PFE, and private farms. Centers performance should be focused on them in the sphere of cooperation.

Understanding of entity which should be a focus of centers activities is determined by the kind of services which they can provide.

### **Where they should assist cooperation?**

Currently the competence centers are being established in 24 RF regions. Whereby they disregard that territories have different potential for the development of agricultural cooperation. In some regions such center can be non-demanded due to insufficient number of entities which need cooperation. In other

regions, on the contrary, more than one center will be required or a larger center with branches owing to large but non-realized potential for cooperation.

For example, 12 regions: Saratov, Volgograd, Samara, Rostov, Omsk, Lipetsk, Ulyanovsk, Belgorod, and Yaroslavl regions, Republics of Tatarstan, Sakha-Yakutia, and Mordovia boast of the highest potential for cooperation in Russia. Proportion of produced agro products by small forms of businesses (private plots of land, PFE, and individual entrepreneurs), in other words by potential cooperative member in total regional agricultural production as well as the share of region in country's production. The rest 12 regions – Kostroma, Nizhny Novgorod, Novgorod, Orel, and Tambov regions, Republic of Buryatia, Komi, Chuvashia, Altai and Krasnodar krai, Yamal-Nenets autonomous district and Kabardino-Balkaria report not sizable potential.

According to plan of measures on the implementation of federal project, the competence centers in the sphere of agricultural cooperation and assistance to farmers in RF subjects should be defined till June 1, 2019. However, analyzing data available in Internet out of all RF subjects (except cities with federal status) this task has been achieved by two thirds of regions. Regarding one third of regions the official information on defining and establishing the competence centers in the sphere of agricultural cooperation is missing (Fig. 1).

A significant number of private farms does not entail a need for establishment of competence centers. First of all, it is necessary to identify commercial farms since they require resources, sales, and increased profitability. For example, in Rostov region according to the 2016 census private farms produce 77% of marketable milk of the entire region. The region posts 50.4 thousand private dairy farms of which potential cooperative members who regularly market milk number 35.2 thousand. The competence centers should focus on this scope of farms.

Fig. 2 demonstrates that the highest potential for cooperation is in south-eastern districts of the region. Eleven districts of the region with on average 4–6 cows per farm account for 34% of the total marketable milk produced in the region. Correspondingly, competence centers should be established there. Financing should depend on the number of potential cooperative members in any given region.

**Will the competence center boast of sufficient 'competence' to assist cooperation?**

The competence centers must, among other things, brief ACC members and rural community with basics of agricultural cooperation, analytical work and consulting activities.

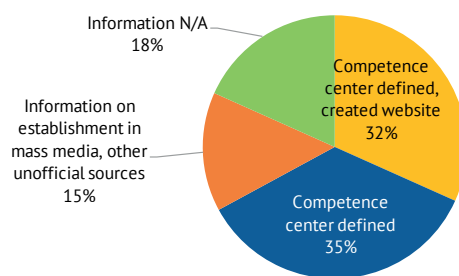


Fig. 1. Information on establishment of competence centers in the sphere of agricultural cooperation across RF subjects as of 14.06.2019

Source: on data available in Internet.

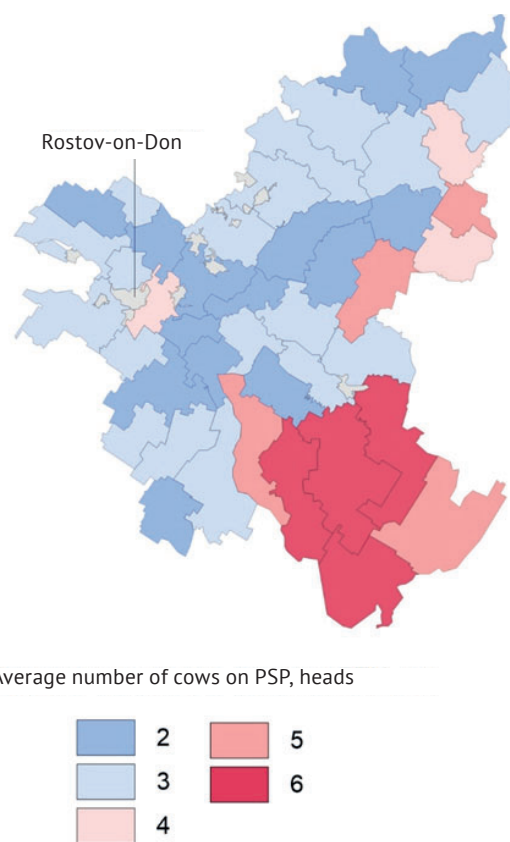


Fig. 2. Distribution of private farms with various number of animals, Rostov region, 2016

Source: RAC of 2016.

## 4. Development Of Cooperative Farming: Pattern Leads To Haulers


RANEPА experts have conducted questionnaire survey in order to reveal elementary knowledge on cooperatives from the employees of already established centers. Seventy-seven respondents from 44 RF regions have been interviewed and 54 of them are employees of the competence centers in the sphere of agricultural cooperation and provision of assistance to farmers, 15 are representatives of the regional ministries offices dealing with agricultural cooperation, and 8 are representatives of other organizations related to agricultural cooperation (AFAAC, Revsoyuz, etc.). In case of correct answers respondents could get 100 points out of 100.

Table 1 shows that aggregate evaluation of competences of the employees of the competence centers in the sphere of agricultural cooperation does not exceed 40%. In other words, the level of training of experts of such centers from the point of view of their main objective, development of agricultural cooperation in rural areas, is currently insufficient. Evaluation of competence of ministerial employees in the sphere of agricultural cooperation stays at approximately the same level.

Table 1

Aggregate evaluation of employees of the competence centers, ministries and organizations across the Russian Federation regarding agricultural cooperation

Employees	Aggregate evaluation of competencies of employees across RF, %	Aggregate self-evaluation of employees across RF regions, %
Competence centers	40	47
Ministries	38	46
Cooperative organizations	47	56
All branches	40	58

Training provided by the Russian Ministry of Agriculture and SME Corporation should be mostly aimed at the performance results. As follows from the independent survey after second year of training out of total four standard lectures do not provide required result. Therefore, introduction of modern training forms is required for the experts of the competence centers. 

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