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Development of Russian foreign trade

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# **Development of Russian foreign trade**

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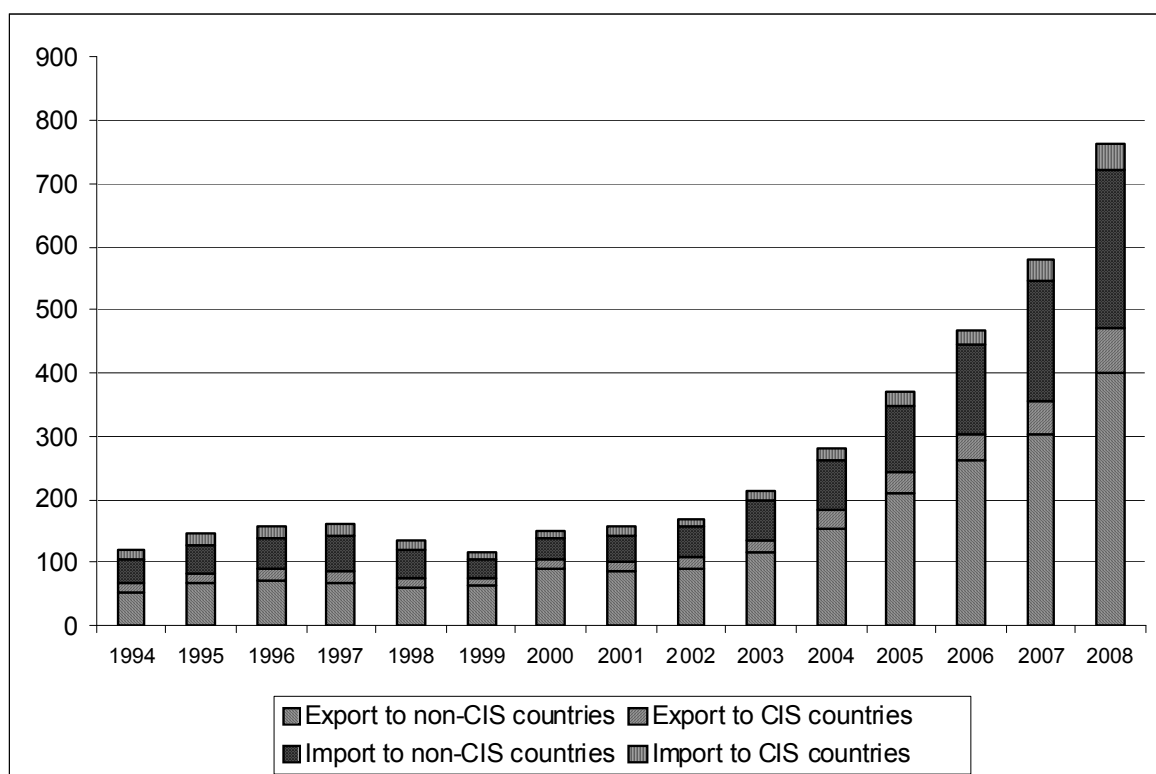
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## 1 Foreign Trade Turnover

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

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

**Figure 1 Russian Foreign Trade Turnover (as USD billion)**



Source: Central Bank of the Russian Federation

In 2008 indices characterizing Russia's foreign trade hit 18 year-high values. Russian foreign trade turnover calculated on the basis of the balance-of-payments methodology made USD 763.7 billion, exceeding the figure of 2007 by 32.2% (Figure 1). It should be

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noted that in the 4<sup>th</sup> quarter the trade turnover was 4.6% below the corresponding figure of 2007. The export dropped by 10.4% and import went up by only 4.4% versus the 4<sup>th</sup> quarter 2007.

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

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

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

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## 2 Situation on the World Market

In the report of the International Monetary Fund<sup>2</sup> on the state and prospects of the development of the world economy prepared in October 2008 it was noted that in 2008 the world economy entered the period of deep recession, which was caused by sharp worsening of the situation at the world market (the similar recession was noted in 1930ies). In the period from 2004 to the middle of 2007 the world economy was steadily on the rise. The world GDP went up by 5% a year on average (the highest figure since 1970ies), approximately three quarters of this growth were accounted for by the countries with the developing economy and countries with the transitional economy. The level of inflation remained comparatively low, though there was a trend for its increase observed.

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

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

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<sup>2</sup> <http://www.imf.org/external/russian/index.htm>

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In 2008 the GDP of the USA went up by 1.3%, which is the lowest figure since 2001, when it was connected with the terroristic attacks in New York and other cities of the USA. It should be noted that in the 4<sup>th</sup> quarter 2008 the GDP of the USD dropped by 3.8%. This is the lowest figure since 1982, which was the time the American economy suffered deep recession.

The business activity in the countries of Western Europe has slowed down considerably, which is due to a downward tendency on the housing market of a number of countries, stagnant economic situation in the USA and the appreciation of the euro exchange rate. According to the report of the European committee published in January 2009<sup>3</sup>, the GDP of Eurozone increased only by 0.1% in 2008. At the same time the European Committee is forecasting that in 2009 the GDP of the Eurozone will drop by 1.9%, this being the first time the economy has fallen as a result of the year after the Euro was introduced in 1999. It is also mentioned in the report that the recession in the Eurozone started in the second quarter of 2008, when the GDP of the region dropped by 0.2% as compared with the previous quarter. In the fourth quarter the drop aggravated to 1.5%.

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

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

During last months of 2008 the world volume of production and trade contracted considerably. The continuation of the financial crisis connected with the political elite

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<sup>3</sup> <http://ec.europa.eu/news/economy/>

being unable to eliminate uncertainty resulted in a dramatic decrease in price of assets in all the countries with the developed economy and the countries with the market in process of formation, which led to the decrease in the well-fare of the population, and, thus the contraction of the consumers' demand. Besides, the negative expectations of the population made the people to postpone the expenditure, decreasing the demand for the consumer and investment goods even further.

In January 2009 the International monetary fund reduced the forecast for the growth of the world economy in 2009<sup>4</sup> by 1.7 per cent versus its latest forecast published in November 2008 – from 2.2% to 0.5% (Table 1). According to the report of the International Monetary Fund, the growth of the economy this year will be the lowest since the Second World War. Despite the efforts of the Government of different countries, the paralytic situation in the financing and banking system cannot be overcome, which inevitably results in the slow-down of the development of the real sector of economy. In this connection, the IMF suggests devising new measures, which will enable clearing the market from the helpless institutions and non-liquid assets and reanimate the financial flows.

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

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

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

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<sup>4</sup> <http://www.imf.org/external/russian/pubs/ft/weo/2009/update/01/pdf/0109r.pdf>



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

**Table 1 Dynamics of Global Gross Product and World Trade (as percentage to the previous year)**

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

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

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

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

On the whole in 2008 the situation with prices for the main goods of the Russian export was favorable despite a drop of prices for oil and many other raw materials in the 3<sup>rd</sup> and the 4<sup>th</sup> quarters (Table 2).

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

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

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

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

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

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

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apprehensions about the slow-down of the world economy and further decrease in consumption.

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

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

In the 1<sup>st</sup> quarter 2008 at the markets of metals a moderate increase in the quotations was observed against the background of natural disasters (floods, earthquake in China), strikes becoming more frequent (Chile, Peru), moderate growth of the demand for metals, weakening of the dollar and growing price for oil. All these factors supported the balance of the demand and supply of metals and forced the prices to grow.

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

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

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

for metal from the construction companies and motor-vehicles producing concerns there began a decrease in prices for aluminum.

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

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

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

**Table 2 Average Annual Prices**

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

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

In October the index of 19 major raw materials by Reuters/Jefferies CRB dropped by 53% from the peak in July due to the apprehensions that the world recession would

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undermine the demand for raw materials. Up to that moment, over the period from 2001 to December 31, 2007 the index nearly doubled its value. The rate at which the price for oil decreased was record-breaking, and prices for copper and gold decreased at the rates that were maximal for the past two decades.

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

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

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

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

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The increase in prices for energy and for fodder as well as the enhancement of the world demand resulted in the growth of prices for meat. At the same time the expectations of good harvests of crops, decrease in prices for fuel and energy, slow-down of demand growth rates connected with the unfavorable situation in the economy of the leading countries, decrease of the world prices at the majority of the trading markets affected the dynamics of prices at the meat markets as well: beef started cheapening in August, pork and poultry – in September 2008. However as a result of the 3<sup>rd</sup> quarter of the previous year, as compared with the preceding quarter beef went up in price by 11.9%, pork – by 8.7%, poultry – by 5.4%. In January-September 2008 versus the corresponding period of the previous year the prices for beef went up by 26.3% (by 3.75 in January-September 2007 as compared with January-September 2006), prices for pork – by 0.3% (by 4.3%), prices for poultry – by 7.0% (13.1%).

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

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

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

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

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

**Table 3 Dynamics of Average World Prices for Some Agriculture Goods**

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

Source: World Bank.

### 3 Dynamics of Main Russian Indices of Foreign Trade

#### 3.1 Export

In 2008 value volume of export increased by 33.1%, in 2004 the figure reached 34.8%, in 2005 – 33.1%, in 2006 – 24.5%, in 2007 – 16.8%. The basis for the high rates of export growth was the extremely favorable dynamics of world prices for oil and other energy carriers in the first half of the year. In 2008 export increased due to the growth of prices despite the decrease of physical volumes (Table 4).

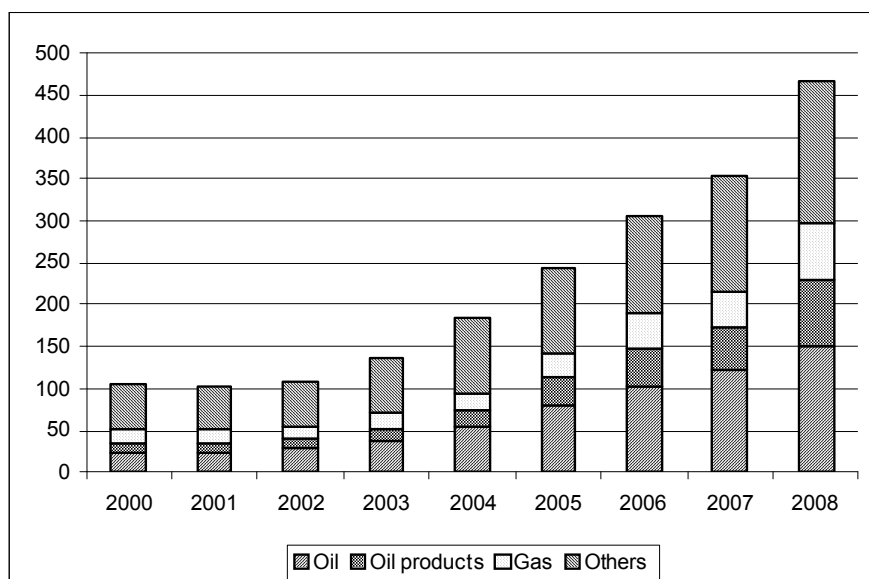
**Table 4 Dynamics of Russian Export**

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

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

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

**Figure 2 Russian Export (as USD billion)**





At the same time the main positions of the goods hardly changed. The first place is still occupied by the export of goods of fuels and energy complex, whose share increased by 4.4 per cent as on the level of 2007 (Figures 2 and 3).

The expansion of the proportion of fuel and energy commodities in the total volume of the Russian export (Table 5) was primarily defined by the growth of prices for oil by 1.4 times, the physical volumes of export reducing by 7%, and the export of oil products and natural gas increasing considerably both due to the increase in contract prices by 1.46 times and 1.53 times and due to the increase in physical volumes of supplies by 3.6% and 1.72%, correspondingly.

**Table 5 Value Volumes of Russian Export of Oil, Oil Products and Gas (as USD million) and Their Share in Total Volume of Russian Export (as percentage)**

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

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

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

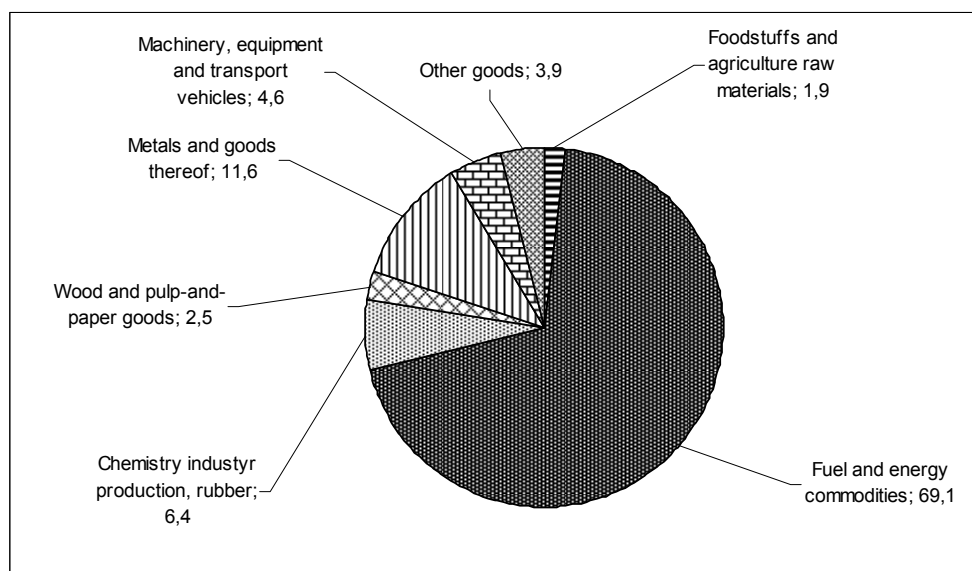
As compared with 2007 the increase in export of chemistry industry goods was substantially affected by the growth of prices for the largest group of goods, namely,

fertilizers. As a result the value volume of the export of chemistry industry production increased by 45.5%.

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

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

**Figure 3 Structure of Russian Export by Kinds of Commodities in 2008 (as percentage)**



Source: Federal Customs Service of the Russian Federation

Favorable situation at the world market in the first half of 2008 secures a considerable growth in contract prices for the main goods of the Russian export (Table 6).

However the decrease of prices at the world markets of fuel and raw materials affects the dynamics of the Russian export stronger and stronger. Whereas in August last year the decrease of prices was characteristic only for oil among the main goods of the Russian export, in September 2008 the decrease of prices affected a larger number of goods. Thus, according to the data of customs statistics, besides the decrease in export prices for oil by 13.2% in September on August, the decrease of prices was observed for oil products – by 9.8%, for natural gas – by 10.8%, for copper – by 9.4%,

for aluminum – by 1.2%, for unprocessed wood – by 3%, for processed wood – by 3.6%, for ferrous metals – by 8.4%. In last months of 2008 the rates of decrease of contract prices for oil, oil products, non-ferrous metals accelerated.

**Table 6 Average Contract Prices for Main Goods of Russian Export (supplies to non-CIS countries, as USD per ton)**

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

Source: Federal Customs Service

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

### 3.2 Import

Import of goods was characterized by a considerable growth, reaching in 2008 USD 291.97 billion, which is by 30.6% higher than the level of 2007. However whereas in the 1<sup>st</sup>-3<sup>rd</sup> quarters the growth versus the corresponding quarter of the preceding year made more than 40%, in the 4<sup>th</sup> quarter it was only 4.4% (Table 7).

**Table 7 Russian Import (as USD billion)**

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

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

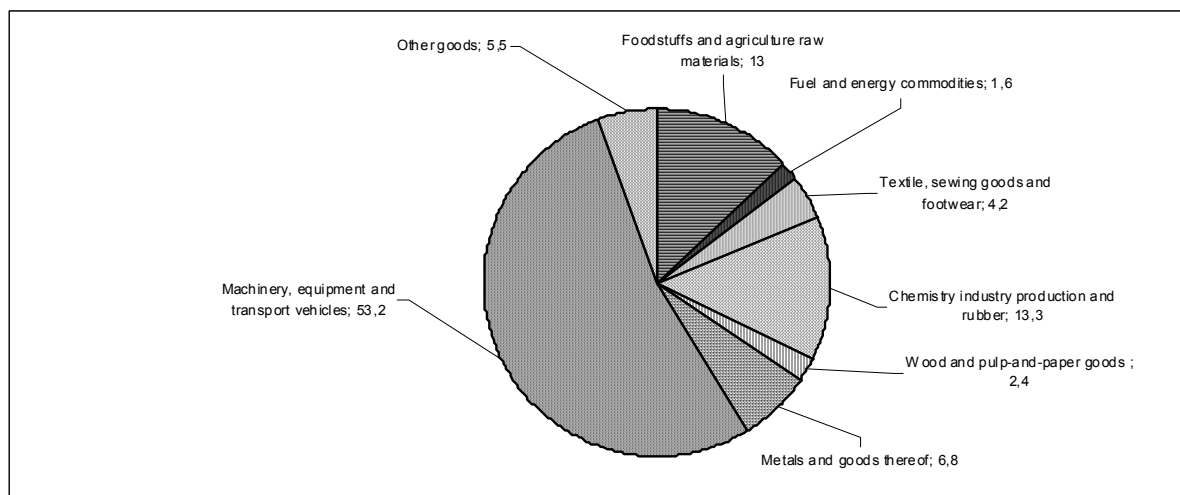
In 2008 in the monthly dynamics of the Russian import there was an increase in terms of value observed from USD 15.6 billion in January to USD 29 billion in July. In August-October the value volumes of Russian import remained at practically the same level

and were equal to approximately USD 27 billion. In November the value of the import goods reduced considerably and made USD 21.7 billion, in December – USD 23.9 billion, which is, correspondingly, 20.1% and 11.9% below the figures of October. Such dynamics was a consequence of the contraction of the investment and consumer demand as a result of credit crisis. Starting with November the biggest banks practically stopped issuing consumer credits and the volume of credits in the real sector increased but negligibly.

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

High import growth rates were accounted for mainly by the increase in machinery, equipment and transport vehicles import by 38.4%. The proportion of the goods of this group in the structure of the Russian import increase by 1.8 per cent in 2008. import of passenger cars and trucks went up by 41.8% and 39.5% in terms of value and by 24.7% and 10.5% in terms of physical volume, correspondingly. (Figure 4).

**Figure 4 Structure of Russian Import by Goods in 2008 (as percentage)**



Source: Federal Customs Service of the Russian Federation

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

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

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

#### 4 Geographic Structure of Foreign Trade

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

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

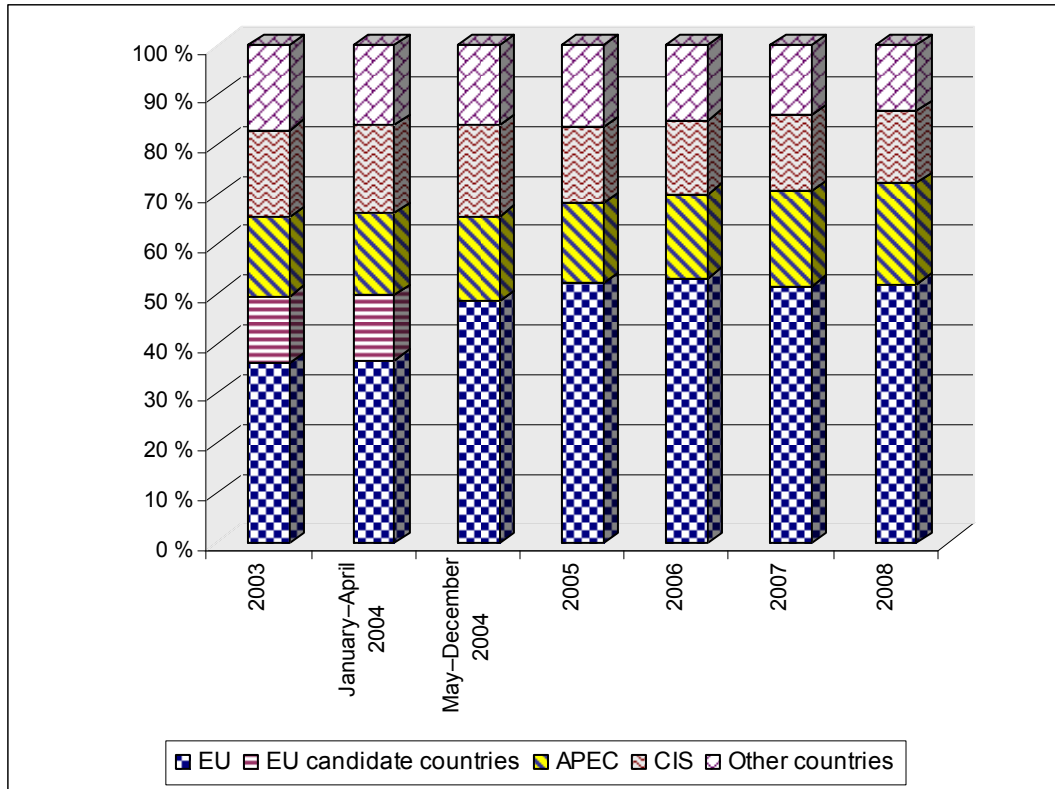
The share of CIS countries in the Russia's foreign trade turnover reduced from 15.2% to 14.5%. The main trading partners in this group are Ukraine and Belorussia, whose shares are 5.4% and 4.7%, correspondingly. On the whole Russia's foreign trade turnover with the countries of this group increased by 29% as compared with 2007, import increasing by 22.5%, export – by 32.7% (Figure 5).

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

Among non-CIS countries it was Germany, the trade turnover with which was USD 67.3 billion (127.2% on 2007), the Netherlands – USD 61.8 billion (132.3%), China – 55.9 billion (138.6%), Italy – 52.9 billion (146.7%), Turkey – USD 33.8 billion (149.0%), Japan – 29.0 billion (142.4%), the USA – USD 27.3 billion (153.2%), Poland – USD

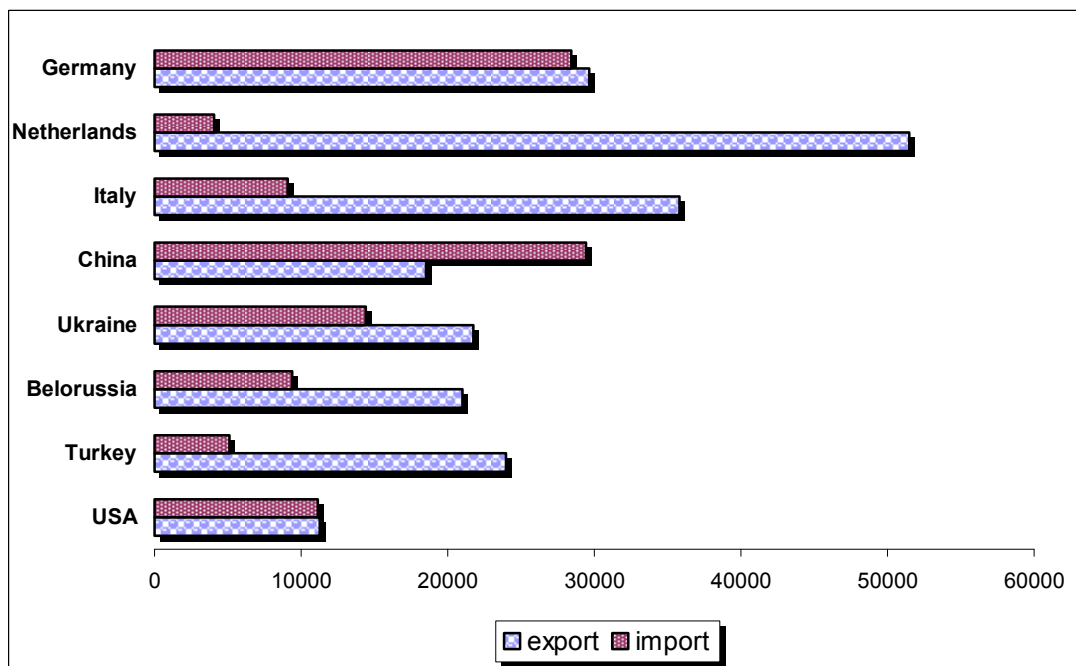
27.2 billion (151.8%), the UK – 22.5 billion (134.8%), Finland – USD 22.4 billion (142.1%) that were the main trading partners of the Russian Federation (Figure 6).

**Figure 5 Geographic Structure of Russia’s Foreign Trade**



Source: Federal Customs Service of the Russian Federation

**Figure 6 Major Trading Partners in 2008 (as USD million)**



## 5 Regulation of Foreign Trade

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

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

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

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

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

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

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

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

This decree prolongs the period of action of the seasonal duty till the end of May 2008 by abolition of the reservation on the pre-term cancellation of the



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action of the seasonal duty rates in case average monthly price for raw sugar at New-York raw materials exchange exceeds USD 259.99 per ton;

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

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

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

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

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

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

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

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

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

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

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

The Decree was adopted within the framework of the series of measures for the diminution of the crisis aftermaths for the domestic motor vehicles production. According to the introductions the import duty rates for passenger cars and trucks are increased, the period after which the passenger cars are regarded as used is changed from 7 to 5 years. Import duty rates for passenger cars with the period of exploitation from 1 to 5 years were increase on average from 25% to 30% of the customs value with the proportional increase of the specific rate, calculated in terms of Euro (per 1 cu. cm of the engine volume) (Table 8).

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

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

**Table 8 Customs Duty Rates On Some Kinds of Motor Vehicles**

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

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

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

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

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

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

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

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

In concordance with the article of the Law “On customs tariff” the Decrees from 14.01.2008 No 5, from 17.03.2008 No 173, from 22.05.2008 No 378, from 21.07.2008 No 547, from 19.09.2008 No 699 “On approval of export duty rates for crude oil and some kinds of commodities produced from oil exported from the territory of the Russian Federation outside the countries participating in the agreement on Customs Union” were adopted (Table 9).

On November 21, the State Duma of the Russian Federation and on November 26, 2008 the Council of Federation approved the Law “On making changes to article 3 of the Law “On customs tariff”. In order to provide quicker and more flexible application of the measures of customs and tariffs regulation and the government support of oil industry in connection with the drop of world prices for oil the bill envisages that starting with October 15, 2003 the monitoring for the prices for crude oil grade Urals at the world markets of oil raw materials will be made starting with the 15<sup>th</sup> of each calendar month until the 14<sup>th</sup> of the next calendar month. The period for the effect of the export customs duty rates for oil is reduced from 2 to 1 calendar month. The decisions of the Government of the Russian Federation on the changes in the rates are to be published no later than 1 day before they come into effect (earlier – no later than 10 days before coming into effect).

**Table 9 Export Duty Rates for Oil and Oil Products in 2008 (as USD per ton)**

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

Source: Decrees of the Government of the Russian Federation

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

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

- special duty with regard to dry baking yeasts imported into the territory of the Russian Federation from March 22, 2005 for the period of 3 years;

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

The following investigations are being carried out:

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

The following investigations have been started:

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

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

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

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

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

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## **6 Negotiations on Accession to World Trade Organization**

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

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

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

At the meeting in Geneva in November 2008 a regular reading of the report of the working party on Russia's accession to the WTO in new version approved in August 2008 took place. This document consolidates the results of the negotiations starting with 2004 and upon its scan reading it can be discovered that there are very few questions.

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

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



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

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

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

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

Within the framework of the negotiations in Geneva in November 2008 Russia conducted about ten bilateral consultations on system issues, including those with Ukraine and Saudi Arabia. Saudi Arabia, negotiations with which were concluded in the summer of 2008, insisted on Russia taking liabilities on equalizing export and internal prices for energy carriers as a member of the working party. Some time ago the

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European Union had the same requirements, but it abolished it as a result of the negotiations and they were not inserted in the protocol on the conclusion of bilateral negotiations. Later Saudi Arabia recalled its application on energy carriers.

At the meeting with the Ukrainian party in Geneva the issues concerning the report of the Working party were discussed. Ukraine became a WTO member in May 2008 and at the same time it became a member of the working party on Russia's accession to the WTO, claiming that it reserves the right to start bilateral negotiations on the conditions for the accession of its goods and services to Russia's market.

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

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## **7 Project of External Economic Strategy of Russian Federation up to 2020**

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

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

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

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

The scenario being favorable, average annual growth rates of the global GDP in 2010-2015 will be equal to 4.0-4.2%, in 2016-2020 – to 2.7%, versus 3.9% in 2001-2006 and 3.3% in 1991-2000. At the same time the nowadays crisis of the world economy may start the long period of the slowed development, characterized by the increased

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inflation and acute conflict between old and new international centers of power, countries exporting raw materials and post-industrial economies<sup>5</sup>.

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

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

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

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

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<sup>5</sup> Concept for Long-term Socio- Economic Development of the Russian Federation up to 2020, P.200-201, site of the Ministry for Economic Development of the Russian Federation, October 16, 2008, [www.economy.gov.ru](http://www.economy.gov.ru)

<sup>6</sup> Concept for Long-term Socio- Economic Development of the Russian Federation up to 2020, P.200-201, site of the Ministry for Economic Development of the Russian Federation, October 16, 2008, [www.economy.gov.ru](http://www.economy.gov.ru) P.165

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- the winning of 5-10% share at the markets of high-tech goods by 5-7 consolidated positions.

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

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

- winning of leading positions at the world markets for high-tech goods and services by Russia in concordance with its specialization in the global scientific and technological sphere;
- help provided to export and achievement of the global competitiveness of the processing industry and the sphere of services;
- integration of Russia in global transportation network and realization of the transit potential of the Russian economy;
- increase in the role played by Russia in the guaranteeing of the global energy security and strengthening of its positions at the market of hydrocarbons;
- integration of the Eurasia economic space with the center in Russia;
- creation of the international financial center in Russia, conversion of ruble in the regional reserve currency;
- intensification of Russia's participation in the formation of the world economic system.

At the same time the achievement of the strategic goals envisages the fulfillment of the regional and country priorities of the Russia's external policy in middle-term and long-

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term prospect. Geographic diversification and development of the external economic links will contribute into the decrease of the risks connected with the constant changes in the balance of power in the world and the transformation of the international economic system.

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

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

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

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

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

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

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- there will be short-term programs for the advancement of the industrial export prepared, defining key directions, taking into account the priority and specific features of the separate foreign markets and the requirements of the domestic exporters;
  - bilateral plans for trade and economic cooperation will be developed for the key partner countries of the Russian Federation;
  - the programs and plans mentioned will be fulfilled with the attraction of the potential and Russia's trading representatives abroad;
  - "Main directions for customs and tariffs policy" will be approved annually;
  - on the basis of the discovered opportunities and potential threats for the main branches of industry and the geographic directions of external economic activity necessary corrections to the external economic policy of the country will be made.

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

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