



TRADE POLICY DEVELOPMENTS PAPER NO. 50

**TRADE POLICY MONITORING REPORT
OF
RUSSIAN
VOLUME VI
(APRIL 2013 - JUNE 2013)**

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Abbreviations

ACTA	-	Anti-Counterfeiting Trade Agreement
AD	-	Anti-Dumping
AID	-	U.S. Agency for International Development
AIDCP	-	Agreement on the International Dolphin Conservation Program
APEC	-	Asia Pacific Economic Cooperation
ATPA	-	Andean Trade Preference Act
AusAID	-	Australian Agency for International Development
AWSB	-	Athi Water Services Board
BIT	-	Bilateral Investment Treaty
CBP	-	Customs and Border Protection
CCC	-	Commodity Credit Corporation
COMESA	-	Common Market for Eastern and Southern Africa
CRS	-	Congressional Research Service
CTAC	-	Commercial Targeting and Analysis Center
CVD	-	Countervailing Duties
DEIP	-	Dairy Export Incentive Program
DSB	-	Dispute Settlement Board
EAE	-	Energy Allied Egypt
EEP	-	Export Enhancement Program
EIU	-	Economist Intelligence Unit
EPA	-	Environmental Protection Agency
EU	-	European Union
Ex-Im Bank	-	Export-Import Bank of the United States
FTA	-	Free Trade Agreement
GATT	-	General Agreement on Tariffs and Trade

GDP	-	Gross Domestic Product
GSP	-	Generalized System of Preferences
ICT	-	Information and Communications Technology
IMF	-	International Monetary Fund
IP	-	Intellectual Property
PNTR	-	Permanent Normal Trade Relations
SPS	-	Sanitary and Phytosanitary Measures
STEP	-	State Trade and Export Promotion Program
SWFs	-	Sovereign Wealth Funds
TAA	-	Trade Adjustment Assistance
TBT	-	Technical Barriers to Trade
TPP	-	Trans-Pacific Partnership
TRIPS	-	Agreement on Trade Related Aspects of Intellectual Property Rights
TRQ	-	Tariff-Rate Quota
US	-	United States
USTR	-	United States Trade Representative
WIPO	-	World Intellectual Property Organization
WTO	-	World Trade Organization

EXECUTIVE SUMMARY

- Russia's GDP grew by 1.2% in Q1 over the same period last year, marking the slowest reading since Q4 2009.
- Exports in the quarter expanded by 1.8% y/y after declining for seven consecutive months. Imports increased by 3.5%, which contrasted the 6.2% decrease recorded in May 2013.
- Notification containing details of a regional trade agreement involving multiple parties, including Kazakhstan, Ukraine, the Kyrgyz Republic, Armenia, the Republic of Moldova, Tajikistan, Belarus, and Russia was submitted to the Committee on Regional Trade Agreements at the WTO.
- A draft memorandum on deepening of trade relations between the Customs Union of Russia, Belarus, Kazakhstan with Ukraine and Kyrgyzstan was signed during the quarter.
- Russia reduced meat import from Mexico and Canada since April 2013 due to concerns of U.S. meat containing *Ractopamine*.
- Russia recorded its highest-ever level of FDI outflows (USD 56 billion) and ranks as the second largest investor worldwide in Q1 2013, after the United States (USD 88 billion) and before Germany (USD 25 billion) and Japan (USD 22 billion).

AGENDA FOR THE NEXT REPORT

- Update on possibility of a major trade dispute between Russia and Ukraine owing to Ukraine and EU signing the Deep & Comprehensive Free Trade Agreement.
- Update on the possibility of a trade dispute involving Mexico and Canada regarding reduction of import of meat over concerns that it contains *Ractopamine*.
- Update on the possibility of consultations with People's Republic of China regarding on imposition of anti-dumping duties on various products during the quarter including cast iron-enameled bathtubs and light commercial vehicles with diesel engines.

TRADE POLICY MONITORING REPORT OF RUSSIAN FEDERATION
FOR THE QUARTERLY PERIOD: APRIL 2013 – JUNE 2013

I. INTRODUCTION

This is the ninth Quarterly Trade Policy Monitoring Report prepared by the Centre for International Trade and Economic Laws (CITEL), Jindal Global Law School. This report will monitor and discuss the trade and macroeconomic policy developments that took place in the Russian Federation during the period April- June, 2013.

II. ECONOMIC ENVIRONMENT

II.A. OVERALL ECONOMIC OUTLOOK

According to the flash estimate published by the Federal State Statistics Service (Rosstat) on 9 August 2013, GDP grew by 1.2% in Q1 over the same period last year, marking the slowest reading since Q4 2009. The result represents deterioration compared to 1.9% expansion recorded in Q4 2012/13 and came in well below market expectations of a 2.0% growth in the economy. The result also marks decrease over the estimate published by the Ministry of Economic Development on 24 July 2013 which had stated that the economy would expand by 1.9% in Q1. The GDP expansion was at its slowest pace in the quarter in more than 3 years.¹

II.B. INDUSTRIAL OUTPUT

End of Q1 saw the industrial production increase to 0.1% month on month (m/m), which contrasted the 1.4% decrease seen in May 2013. Increase resulted from faster growth in mining and quarrying as well as from a low pace of contraction in manufacturing which is the largest contributor to industrial output.² Despite the annual expansion, the trend continues to point downwards, with average annual growth in industrial production falling to 1.1% at the end of Q1 from 1.3% in May.

II.C. INFLATION

At the end of Q1, consumer prices increased by 0.4% m/m, which was below the 0.7% increase recorded in May 2013. The moderation stemmed from slower growth in prices

¹ *GDP expands in Q2 at slowest pace in more than three years*, FOCUS-ECONOMICS, 9 August 2013, http://www.focus-economics.com/en/economy/news/Russia-GDP-GDP_expands_in_Q2_at_slowest_pace_in_more_than_three_years-2013-08-09

² *Industrial output rebounds in June but growth remains slow*, FOCUS ECONOMICS, 16 July 2013, http://www.focus-economics.com/en/economy/news/Russia-Industry-Industrial_output_rebounds_in_June_but_growth_remains_slow-2013-07-16

for goods. This resulted in the Annual Headline Inflation fell from 7.4% in May to 6.9% in June 2013, the lowest level in six months.³ Interestingly, this took place after the Annual Headline Inflation increased from 7.2% in April 2013 to 7.4% in May 2013 which is the highest level in 21 months.⁴ The core Consumer Price Index increased by 0.3% in June 2013 and the Annual core inflation reduced from 5.9% in May 2013 to 5.8% in June 2013.

II.D. MONETARY POLICY

Bank Rossii (Central Bank) left the refinancing rate unchanged at 8.25% at the end of Q1. The Central Bank also left the overnight deposit rate unchanged at 4.50% and the overnight repurchase rate at 6.50%. However, it shaved 25 basis points (0.25%) off longer-term refinancing facilities from six to 12 months. Regarding price developments, Central Bank acknowledged the recent pick-up in inflation which was explained by food prices and regulated tariffs.⁵

II.E. EXPORTS, IMPORTS & TRADE BALANCE

At the end of Q1 exports expanded by 1.8% y/y. The reading represents first increase after declining for seven consecutive months. Imports increased by 3.5%, which contrasted the 6.2% decrease recorded in May 2013. As a result, the trade surplus shrank to USD 13.7 billion in June (in y/y terms the trade surplus in June 2012 was USD 13.9 billion). The 12-month sum of the trade balance remained unchanged at USD 176 billion.⁶

II.F. INTERNATIONAL RESERVES

International reserves deteriorated in Q1 by 2.6% (USD 14 billion) having reached the mid-2012 mark. This decrease is directly related the fall in the oil prices and exacerbated indicators of the balance of payment. The current account balance has continuously worsened for the past 6 quarters in a row. Growth in consumer spending combined with high interest rates on imports have significantly contributed this factor.⁷

II.G. LENDING CONDITIONS

In the first half of 2013 witnessed additional softening in the lending conditions for the large corporate borrowers. The survey conducted by the Central Bank revealed that 14% of banks decreased their lending rates and approximately 75% did not change them. The

³ *Inflation slows to lowest level in six months* FOCUS ECONOMICS, 4 July 2013, http://www.focus-economics.com/en/economy/news/Russia-Inflation-Inflation_slows_to_lowest_level_in_six_months-2013-07-04

⁴ *Russia inflation soars to the highest level in two years*, FOCUS ECONOMICS, 4 July 2013, http://www.focus-economics.com/en/economy/news/Russia-Inflation-Inflation_soars_to_highest_level_in_almost_two_years-2013-06-04

⁵ *Russian Monetary Policy on Hold*, FOCUS ECONOMICS, 10 July 2013, http://www.focus-economics.com/en/economy/news/Russia-Monetary_Policy-Central_Bank_remains_on_hold-2013-06-10

⁶ *Exports mark first increase after seven consecutive drops*, FOCUS ECONOMICS, 25 July 2013, http://www.focus-economics.com/en/economy/news/Russia-Trade12m-Exports_mark_first_increase_after_seven_consecutive_drops-2013-07-25

⁷ *Id.*

changes can be related to the high uncertainties that exist regarding development perspectives of both financial and real sectors.

With all the turbulences that are mentioned above the YTM on the Russian sovereign euro bonds increased by 137 basis points as compared to December 2012. An increase of 77 points occurred only in Q1. Interest rates on the loans in the domestic currency saw a downfall. It went down to 11.8 percent in May from 12.2 percent in Jan- Feb 2013.⁸ Interest rates on loans in foreign currency also witnessed a downward pattern and the rates went down to 7.1% in Q1 from 7.4% in Q4 2012/13. Average lending rate has dropped to 5 % but does not correctly reflect the general market situation.⁹

II.H. OIL PRICES

Russian oil market has seen a sharp increase of over 20% in oil prices between May and June 2013. The reason for this change is the acquisition of the former Russian-British oil consortium TNK-BP by Russia's oil major, Rosneft. A third of the domestic supply of oil in Russia used to be accounted for by TNK-BP. Rosneft closed this deal and became the world's biggest publicly traded oil company. As Rosneft has chosen to retain ties only with the big former TNK-BP partners, small oil industries and refineries will be hurt the most.

III. TRADE AGREEMENTS AND ARRANGEMENTS

III.A. RUSSIA AT THE WTO

Notification from the Russian Federation to the Committee on Regional Trade Agreements

The Agreement on the Free Trade Area (CIS Agreement) signed on 15th April 1994 in accordance with paragraph 23.1 and Annex 5 of the Treaty on a Free Trade Area between Armenia, Belarus, Kazakhstan, the Kyrgyz Republic, the Republic of Moldova, the Russian Federation, Tajikistan, and Ukraine stood terminated according to Russian Federation. The communication for the same was made by the WTO on behalf of the Russian Federation on 7th June 2013. This notification contains details of a regional trade agreement involving multiple parties, including Kazakhstan, Ukraine, the Kyrgyz Republic, Armenia, the Republic of Moldova, Tajikistan, Belarus, and Russia. It eliminates most duties and contains provisions regarding sanitary and phyto-sanitary measures, trade remedies, technical regulations, dispute settlement, government procurement and rules of origin.

Russia at WTO Import Licensing Committee

Russia was queried by Canada, Japan, the EU and the US about its laws and regulations, and especially why Russia was unsuccessful in responding to the survey on licensing processes at the WTO Import Licensing Committee. Although the members

⁸ *Id.*

⁹ *Id.*

sympathized with the large amount of work, which is needed in accumulating the material for the questionnaire and to answer to their more specific questions, they pressed Russia to respond as soon as possible.

Russia clarified on certain topics like regime applied to alcoholic beverages, drugs and drug precursors, toxics, medicines and radio-electronics, and stated that postponements were caused by an internal reorganization.¹⁰

III.B. OTHER AGREEMENTS AND ARRANGEMENTS

The Customs Union of Russia, Belarus and Kazakhstan: Approved conception for common agro-industrial policy

On 31 May 2013 the Supreme Eurasian Economic Council of the Customs Union of Russia, Belarus and Kazakhstan (CU) approved Decision No. 35 of May 29, 2013, entitled 'On the conception of coordinated agro-industrial policy of the CU Member States of the Customs Union and the Single Economic Space.' Its principal goal is to increase exports of agricultural and food products outside the CU and the share of CU Member States on the world's agricultural and food markets.¹¹ The decision's main dimensions with international effects are:

- Development of exports of agricultural and food products. It will be based on coordinated marketing policy on the international markets (mutual expositions, assistance in certification of products for the foreign markets, optimisation of the export flows, etc.). For some export commodities, the coordinated export policy foresees the creation of export 'pools'.
- Science-based innovative development of the agro-industrial complex. It will be based on integrated and coordinated research projects of the CU Member States in the sphere of innovations.

Eurasian Economic Commission to deepen cooperation with Ukraine and Kyrgyzstan

A draft memorandum on deepening of trade relations between the Customs Union of Russia, Belarus, Kazakhstan with Ukraine and Kyrgyzstan was signed at a recent meeting of Supreme Eurasian Economic Council. Plans for further development of regional assimilation were discussed by the leaders of the member states. Agreements signed included the implementation of the main directions of integration, the formation of an integrated information structure of foreign and mutual trade, agro-coordinated strategy

¹⁰ *WTO 2013 News items - Russia, Viet Nam, Indonesia and Brazil among members queried on import licensing*, World Trade Organization, http://www.wto.org/english/news_e/news13_e/impl_22apr13_e.htm

¹¹ *The Customs Union of Russia, Belarus and Kazakhstan: Approved conception for common agro-industrial policy*, GLOBAL TRADE ALERT, <http://www.globaltradealert.org/measure/customs-union-russia-belarus-and-kazakhstan-approved-conception-common-agro-industrial-polic>

of Russia, Belarus and Kazakhstan. Ukraine has expressed its desire to be an observer to the Eurasian Economic Union.¹²

BOX-1:

According to reports published by the Russian Ministry of Industry and Trade in May 2013, the Public Council and the Council for Technical Regulation and Metrology under the Ministry of Industry and Trade and the Public Council under the Federal Agency for Technical Regulation and Metrology have approved a Draft Federal Law On Standardisation in the Russian Federation. After due deliberation and discussion, the participants decided to submit this law to the Russian Government on May 20 2013.¹³

IV. TRADE POLICY AND PRACTICE BY MEASURE

IV.A. MEASURES DIRECTLY AFFECTING IMPORTS

IV.A.1. CUSTOMS

Russian Government to make electric cars duty free

Ministry of Industry and Trade of the Russian Federation is considering abolition of custom duty on electric cars, after having met with importers on 15 May 2013. Importers claimed that the free import duty will lead to lower the price of these electric cars by 20 % making them available to Russian buyers.¹⁴

Russia has reduced meat imports from Mexico and Canada

Russia has reduced meat import from Mexico and Canada since April 2013. This was due to concerns that U.S. meat containing *Ractopamine*, which is used to stimulate muscle growth in animals and banned throughout the Customs Union, would enter Russia through Canada and Mexico. In an attempt to stop this, Russia has reduced meat imports from this country. Russia has already imposed an import ban on U.S. meat.¹⁵

Temporary cancellation of import duties for some products of juice processing

On 14 May 2013, the Collegium of the Eurasian Economic Commission of the Customs Union (CU) of Russia, Belarus and Kazakhstan (according to Decision 107) approved a draft decision of the Council of the Eurasian Economic Commission concerning the

¹² *Embassy of the Russian Federation in the Grand-Duchy of Luxembourg The Eurasian Economic Commission will deepen cooperation with Ukraine and Kyrgyzstan*, Embassy of the Russian Federation in the Grand-Duchy of Luxembourg, <http://en.ambruslu.com/highlights-in-russia/the-urasian-economic-commission-will-deepen-cooperation-with-ukraine-and-kyrgyzstan.html>

¹³ *Ministry of Industry and Trade prepares the Draft Law On Standardisation*, Ministry of Industry and Trade, http://government.ru/en/dep_news/1907

¹⁴ *Ministry of Industry and Trade is ready to eliminate duties on electric cars*, AUTOSTAT, <http://eng.autostat.ru/news/view/7933/president?id=714190>

¹⁵ *Russia Imported meat ban spreads to Mexico and Canada*, RBTH, 15 April 2013, http://rbth.ru/business/2013/04/15/russias_imported_meat_ban_spreads_to_mexico_canada_25039.html

temporary cancellation of import duties for some products of juice processing, in particular those for processing apricots and peaches (CU HS codes 2008 50 610 0 and 2008 70 610 0). Currently, these import duties amounts to 15 per cent.¹⁶

Amendments in the list of goods, subject to bans or restrictions for import or export

Collegium of the Eurasian Economic Commission of the Customs Union (CU) of Russia, Belarus and Kazakhstan (according to Decision 96) amended the list of goods, subject to bans or restrictions for import or export by Member States of the Customs Union within the Framework in Trade with Third Countries of the Eurasian Economic Community. Concretely, the decision lifts restrictions on imports to Belarus of certain types of fish, seafood and related products (CU HS codes 0303, 0304, 0305, 1605).¹⁷

New import tariff on certain storage products for contact lenses

The Collegium of the Eurasian Economic Commission of the Customs Union of Russia, Belarus and Kazakhstan amended the Commodity Nomenclature for Foreign Economic Activity concerning certain storage products for contact lenses. In particular, code 3926 90 970 9 was added to the nomenclature and a 20 % import duty on the new position was implemented.¹⁸

The Customs Union of Russia, Belarus and Kazakhstan impose new import tariff on certain cables

On 15 May 2013, the Collegium of the Eurasian Economic Commission of the Customs Union of Russia, Belarus and Kazakhstan amended the Commodity Nomenclature for Foreign Economic Activity concerning certain types of cables. In particular, code 8544 49 950 9 was added to the nomenclature and a 15 % import duty on the new position was implemented.¹⁹

Increased tariffs on gas water heaters

The Collegium of the Customs Union of Russia, Belarus and Kazakhstan has increased the import tariffs on gas water heaters (code 841911000 from the Commodity

¹⁶ *Russia, Belarus and Kazakhstan cancel import duties on some products*, GLOBAL TRADE ALERT, <http://www.globaltradealert.org/measure/customs-union-russia-belarus-and-kazakhstan-temporary-cancellation-import-duties-some-produc>

¹⁷ *Russia, Belarus, Kazakhstan make amendment to list of goods subject to ban*, GLOBAL TRADE ALERT, <http://www.globaltradealert.org/measure/customs-union-russia-belarus-and-kazakhstan-amendments-list-goods-subject-bans-or-restrictio>

¹⁸ *New Import Tariffs certain storage products*, GLOBAL TRADE ALERT, <http://www.globaltradealert.org/measure/customs-union-russia-belarus-and-kazakhstan-new-import-tariff-certain-storage-products-conta>

¹⁹ *New Import Tariffs On Certain Cables*, GLOBAL TRADE ALERT, <http://www.globaltradealert.org/measure/customs-union-russia-belarus-and-kazakhstan-new-import-tariff-certain-cables>

Nomenclature for Foreign Economic Activity of the Customs Union of Russia, Belarus and Kazakhstan) from 0 to 8.3%.²⁰

Increased tariff on butter, dairy spreads, fats and oils derived from milk, cottage cheese and cheese

On April 1, 2013, the Council of the Eurasian Economic Commission of the Customs Union of Russia, Belarus and Kazakhstan increased (according to Decision No. 10/14.03.2013) the import duties on butter, dairy spreads, fats and oils derived from milk, cottage cheese and cheese.²¹

New import tariff on certain precision instruments

The Collegium of the Eurasian Economic Commission of the Customs Union of Russia, Belarus and Kazakhstan amended the Commodity Nomenclature for Foreign Economic Activity concerning certain types of gasoline. In particular, code 9004 90 900 0 was added to the nomenclature. In addition, a 5% import duty on the new position was implemented.²²

The Customs Union of Russia, Belarus and Kazakhstan: Temporary elimination of import tariffs on terephthalic acid and its salts

On April 23, 2013, the Council of the Customs Union of Russia, Belarus and Kazakhstan (according to Decision № 21) has temporarily eliminated import duties on terephthalic acid and its salts (code 2917 36 000 0 from the Commodity Nomenclature for Foreign Economic Activity of the Customs Union).²³

Russian Federation: Extended list of import VAT-exempted production equipment

Government of the Russian Federation approved Resolution No. 419 on import VAT exemptions for more production equipment categories, including components and spare parts, which are not manufactured in the Russian Federation.

The HS codes in question are:²⁴

²⁰ *Increased Tariffs In Gas Water Heaters*, GLOBAL TRADE ALERT, <http://www.globaltradealert.org/measure/customs-union-russia-belarus-and-kazakhstan-increased-tariffs-gas-water-heaters>

²¹ *Increased Tariff In Butter, Dairy Spreads*, GLOBAL TRADE ALERT, <http://www.globaltradealert.org/measure/customs-union-russia-belarus-and-kazakhstan-increased-tariff-butter-dairy-spreads-fats-and-o>

²² *Import Tariffs On Precision Instruments*, GLOBAL TRADE ALERT, <http://www.globaltradealert.org/measure/customs-union-russia-belarus-and-kazakhstan-new-import-tariff-certain-precision-instruments>

²³ *Temporary Elimination Of Import Tariffs*, GLOBAL TRADE ALERT, <http://www.globaltradealert.org/measure/customs-union-russia-belarus-and-kazakhstan-temporary-elimination-import-tariffs-terephthali>

²⁴ *Russian Federation extended list of import VAT exemption*, GLOBAL TRADE ALERT, <http://www.globaltradealert.org/measure/russian-federation-extended-list-import-vat-exempted-production-equipment>

- 8419 32 000 0 (Equipment drying lines for oriented strand boards).
- 8421 39 200 8 (Equipment aspiration system for the production of oriented strand boards).
- 8465 91 200 0 (Line equipment for finishing products for the production of oriented strand board).
- 8465 96 000 0 (Line equipment for treating timber for oriented strand boards).

IV.A.2. SANITARY AND PHYTO-SANITARY MEASURES

See annexure A for quarterly update.²⁵

IV.A.3. TECHNICAL BARRIERS TO TRADE

See annexure B for quarterly update.²⁶

IV.A.4. ANTI-DUMPING AND SPECIAL DUTIES

- Eurasian Economic Commission Collegium Resolution Number 64 presented on 9th April 2013 has introduced an antidumping duty on cast iron enameled bathtubs that originate in China and is imported onto single customs territory of the Customs Union.
- Eurasian Economic Commission Collegium Resolution Number 65 presented on 9th April 2013 has introduced an antidumping duty on seamless cold deformed steel tubes that originate in China and is imported onto single customs territory of the Customs Union.
- Eurasian Economic Commission Collegium Resolution Number 65 presented on 24 April 2013 has concentrated special duty rates on Caramel. The Customs Union Commission Resolution No 856 dated 18 November 2011 formerly set this rate. The established special duty rates do not apply to the import of caramel originating from developing countries applying the CU tariff preferences system, except for the People's Republic of China, the Turkish Republic and the Federal Republic of Brazil.
- Eurasian Economic Commission Collegium Resolution Number 113 presented on 14 May 2013 introduces antidumping duty on light commercial vehicles with diesel engines with a cylinder capacity no greater than 3000 cm³, with body type "van" and modification "all-metal cargo van" (designed to carry loads up to 2 tons, inclusively). The antidumping measures are set only for those vehicles that are produced in Germany, Italy and Turkey, and shall be valid for five years.²⁷

²⁵ World Trade Organization, available at <http://www.wto.org/>

²⁶ *Id.*

²⁷ *Customs Alert*, DELOITTE, www.deloitte.com/multifiledownload?solutionName=deloitte.com&fileIds=153ea923c9c1f310VgnVCM3000003456f70aSTFL.

IV.B. MEASURES DIRECTLY AFFECTING PRODUCTION & TRADE

FDI during the quarter

The key driver to Russia's GDP growth is its vast stock of natural resources. In fact, two-thirds of Russia's stock market is dominated by the extractive industries. The abundance of natural resources continues to be Russia's most globally competitive feature. Russia accounts for some 20% of the world's gas reserves, 18% of the world's coal reserves and 5% of the world's oil reserves. Together with its hydrocarbon deposits, Russia is also home to one of the world's leading mineral industries. Unsurprisingly, the extraction of natural resources is still one of the most popular industries for FDI in Russia. With the gradual depletion of its 'easy' oil and gas, since the 1990s Russia has welcomed investments from technologically advanced foreign firms.

In Q1 2013, OECD countries accounted for 61% of global FDI outflows and remained comparable to the previous quarter (at USD 219 billion). Investment by non-OECD G20 countries more than doubled, from USD 34 billion to USD 83 billion, driven by investment from Russia. FDI outflows from Russia were significantly boosted by the TNK-BP/Rosneft deal involving the British Virgin Islands.²⁸

Russia recorded its highest-ever level of FDI outflows (USD 56 billion) and ranks as the second largest investor worldwide in Q1 2013, after the United States (USD 88 billion) and before Germany (USD 25 billion) and Japan (USD 22 billion). FDI outflows from Germany more than tripled, while investment from Japan and the United States decreased by 34% and 7%, respectively. France and the United Kingdom recorded negative investment outflows (USD -24 billion and USD -0.4 billion respectively), due to disinvestments in equity and/or reimbursements of intercompany debt.²⁹

In Q1 2013, four countries concentrated 37% of global FDI inflows. China attracted the largest share (USD 53 billion, or 15% of total) followed by Russia (USD 29 billion), the United Kingdom (USD 25 billion) and the United States (USD 23 billion). As noted in the case of FDI outflows, FDI inflows in Russia were significantly affected by the financial complexity of TNK-BP/Rosneft deal. In the OECD area, FDI inflows increased by 41% compared to the previous quarter, representing 48% of global FDI inflows: FDI inflows in the United Kingdom almost tripled (from USD 10 billion to USD 25 billion), while Belgium and Luxembourg recovered from significant disinvestments observed in the last quarter of 2012. However, this development in the OECD area was partly offset by large FDI inflows decreases in Australia (from USD 21 billion to USD 8 billion) and the United States (from USD 42 billion to USD 23 billion), which were previously among major destinations. France recorded negative FDI inflows due to reimbursement of intercompany debt. Among non-OECD countries, Indonesia, Brazil and China received between 25% and 40% less FDI than in the previous quarter, while in India inflows rose by 65% (to USD 7 billion). South Africa recovered from

²⁸ *Russia continues to attract foreign investors*, E&Y, 21 June 2013, <http://emergingmarkets.ey.com/despite-challenges-russias-highly-skilled-workforce-continues-to-attract-foreign-investors/>

²⁹ *Id.*

disinvestments (to USD 1.4 billion) and Argentina maintained the same level (USD 2.6 billion). Saudi Arabia received USD 3 billion in the last quarter of 2012.

Disbursement of USD 3.53 million of state subsidies to farmers for the purchase of agricultural land

On April 23, 2013, the Russian Government distributed from the 2013 state budget RUB 109.68 million (USD 3.53 million) to 66 subjects of the Russian Federation (republics, regions and territories). The purpose of this state aid is to support agricultural farmers for the purchase of agricultural land. The GTA includes state guarantees and other financial incentives that are likely to affect the restructuring and performance of firms facing international competition, whether from imports, in export markets, and from foreign subsidiaries.

Russian Federation: State support for the domestic children's goods industry

According to a report in *Rosiysskaya Gazeta*, an official newspaper of the Russian government, the Ministry of Industry and Trade has formulated a strategy for the development of the children's goods industry until 2020. The strategy is now sent for approval to the Russian government. It targets an export increase of 20-30 per cent of children's goods and increase of the market share on the local market. Currently, imported children's goods dominate the Russian market. For example, 60 % of the children's cosmetics and baby products are supplied by importers; this share is 90% for children's shoes, clothes and toys. China is a key supplier of these goods. Among others, preferential prices for state order supplies, reduced VAT and compensation of interest payments of loans of producers are planned to fulfill this strategy.³⁰

Russian Federation: Facilitated business conditions for foreign investors in state-owned enterprises

With Resolution Num. 542, the Prime Minister of the Russian Federation submitted the Draft Law No. 255707-6 to the Federal Duma. According to the Prime Minister, the legislative amendments are intended to attract and facilitate the business activities of foreign investors in state-owned enterprises in the area of national defence, safety and subsoil exploration.³¹ The main elements can be summarised as follows:

- Abolishing the requirement for a foreign investor, owner of more than 50 per cent of the capital, to coordinate deals with respect to company shares in advance;

³⁰Russian Federation Support Domestic Childrens Goods, GLOBAL TRADE ALERT, <http://www.globaltradealert.org/measure/russian-federation-state-support-domestic-childrens-goods-industry>

³¹ Russian Federation Facilitate Business Condition Of Foreign Investors State Owned Enterprise, GLOBAL TRADE ALERT, <http://www.globaltradealert.org/measure/russian-federation-facilitated-business-conditions-foreign-investors-state-owned-enterprises>

- For the subsoil exploration sector, the condition for exemption from a prior consent is a minimum ownership of 75 per cent of the capital of the enterprise;
- Strategic enterprises, which are state-owned by at least 50 per cent, are excluded from these amendments.

VI. TRADE POLICY BY SECTOR

VI.A. MANUFACTURING SECTOR

Linen Industry boon for Sustainable Development

Russia and Belarus are initiating a joint program to launch a flax industry. In order to promote traditional culture, officials from both countries agreed with the producers that the increase in world cotton prices offered significant prospects for the development of flax production. Russian producers were able to increase productivity by nearly three times in the last decade, because of Cotton manufacturing at the regional level. Director of Agriculture claimed that it is one of the most promising in Russian agriculture in the WTO.

VI.B. AGRICULTURAL SECTOR

Implementation of plan for State support in the agricultural sector

On 30 June 2013 the Russian Government approved of the implementation of the 2013-2015 plan concerning the State Programme for the Development of Agriculture. The plan includes the following major state measures:

- Ensuring the manufacturing of crop farming and animal husbandry products (under the sub-programme Development of the Sub-sector of Crop Farming and Processing and Sale of Crop Farming Products and the sub-programme Development of the Sub-sector of Animal Husbandry and Processing and Sale of Crop Farming Products);
- Increasing the share of cattle breeding stock (under the sub-programme Beef Cattle Breeding); providing grants to farming enterprises for their establishment and development (under the sub-programme Small Business Support);
- Making possible the sale of newly produced agricultural equipment at discounted prices (under the sub-programme Technical and Technological Modernisation and Innovative development);
- Preserving tax benefits for agricultural manufacturers (under the sub-programme Implementation of the State Programme).

A total of RUB 815.67 billion (USD 25.82 billion), including RUB 493.82 billion (USD 15.62 billion) from the federal budget, are to be allocated for the implementation of these programmes.³²

Agriculture Ministry Proposes Support of Meat Industry

The Agriculture Ministry is seeking to allocate from 12 to 16 billion rubles (USD 375 million- USD 500 million) annually until 2018 to provide support to local meat producers, within the framework of WTO rules, a news report said Friday. The Ministry is working on the issue of amending the mechanism of state support, so that it takes into consideration new ways of supporting meat producers under the conditions of the WTO. This year support will be provided in the form of compensation for growing feed costs and will cost 15 billion rubles. In the near future, Russia is planning to spend 12 billion - 13 billion rubles per year and that amount will grow to 16 billion rubles annually by 2018.³³

VI.C. ENERGY

Rosneft, the integrated oil company majority owned by Government of Russia, agreed to a USD 270 billion deal to double oil supplies to China on Friday, as the Kremlin energy champion shifts its focus to Asia from saturated and crisis-hit European markets. The deal, one of the biggest ever in the history of the global oil industry, will bring Rosneft USD 60 billion to USD 70 billion in upfront pre-payment from China, the holders of the world's largest foreign exchange reserves.

It will also allow Rosneft, the world's biggest publicly listed oil firm, to steeply cut its heavy debts and develop new remote Arctic fields. Meanwhile, Rosneft and Statoil have agreed to explore for shale oil in the Samara region in the southeastern part of European Russia, the Norwegian company said on Friday. New techniques unlocking oil trapped in shale rock are boosting world crude reserves by an expected 11%, according to a U.S. government report. Rosneft and Statoil will explore for shale oil in 12 license blocks in the Domanik shale geological formation, Statoil said. Rosneft would have a stake of 51 percent in the project while the Norwegian firm would hold 49 percent and provide USD 60 million to finance the initiative. The two firms have also signed a deal to explore jointly for oil and gas in the Okhotsk and Barents Seas, nearly a year after an agreement was first announced, Statoil said.³⁴

³² *Russia implements plan to support agriculture*, GLOBAL TRADE ALERT, <http://www.globaltradealert.org/measure/russian-federation-implementation-plan-state-support-agricultural-sector>

³³ *Agriculture Ministry Proposes Support of Meat Industry*, THE MOSCOW TIMES, 7 June 2013, <http://www.themoscowtimes.com/business/article/agriculture-ministry-proposes-support-of-meat-industry/481312.html#ixzz2fyXUosto>

³⁴ *Rosneft in 25 Year, 270 Billion Dollar Deal with China*, THE MOSCOW TIMES, <http://www.themoscowtimes.com/business/article/rosneft-in-25-year-270bln-oil-deal-with-china/482050.html#ixzz2fyZdNdnO>

VI.D. TELECOMMUNICATION

Russia will not allow foreign bidders to take part in the auction of a stake in Rostelecom but is ready to sell 50 percent of the telecommunications giant to the country's leading cell phone operators. The decision was aimed to satisfy a demand of the Defense Ministry, which said the company was a strategic asset and should remain in the government's hands. The government is discussing a compromise version of Rostelecom privatization that could provide a balance between national security and economic interests. An official familiar with the situation said that even if foreign companies were excluded from the privatization, the government would still be able to raise USD 5 billion by selling the stake to one of the domestic mobile phone operators.³⁵

³⁵ *Foreign Bidders Could Be Excluded From Rostelecom Privatization*, THE MOSCOW TIMES, <http://www.themoscowtimes.com/business/article/foreign-bidders-could-be-excluded-from-rostelecom-privatization/481939.html#ixzz2fyYKohIa>

ANNEXURE A

TECHNICAL BARRIERS TO TRADE

NOTIFICATION	DATE OF NOTIFICATION	AGENCY RESPONSIBLE	PRODUCTS CONCERNED	PURPOSE OF NOTIFICATION	DESCRIPTION
G/TBT/N/RUS/21	16-5-13	The Ministry of Health of the Russian Federation	Food products	Safety and consumer protection	Clarifies certain food safety requirements and norms and eliminates duplicity of some requirements
G/TBT/N/RUS/22	16-5-13	The Ministry of Agriculture of the Russian Federation	Oil and fat products	Safety and consumer protection	Clarifies requirements on marking of oil and fat products
G/TBT/N/RUS/23	16-5-13	The Ministry of Agriculture of the Russian Federation	Grain	Safety and consumer protection	Amends technical regulations prevalent in the Customs Union, regarding safety requirements in grain

ANNEXURE B

SANITARY AND PHYTO-SANITARY MEASURES

NOTIFICATION	DATE OF NOTIFICATION	AGENCY RESPONSIBLE	PRODUCTS CONCERNED	PURPOSE OF NOTIFICATION	DESCRIPTION	COMPLIANCE TO RELEVANT INTERNATIONAL STANDARDS
G/SPS/N/RUS/22	3-4-13	The Federal Service for Veterinary and Phytosanitary Supervision	Seed and ware potatoes, plants for planting of fruit, ornamental and forest ornamental crops, plants grown in the protected ground	Plant protection and protect territory from other pests	Lays down temporary restrictions on the import of seeds, crops and plants for fruits and vegetables	International Plant Protection Convention - Yes
G/SPS/N/RUS/23	19-4-13	Ministry of Agriculture of the Russian Federation		Animal Health	Makes amendments in common veterinary restrictions for wild animals, zoo and circus animals and inedible raw materials of animal origin for other purposes	World Organization for Animal Health - Yes
G/SPS/N/RUS/24	7-5-13	Federal Service for Veterinary and Phytosanitary Surveillance	Ware Potato	Plant protection and protect territory from other pests	Introduces temporary restrictions on import of ware potato from Egypt to Russia due to detection of brown rot of potato	International Plant Protection Convention - Yes

G/SPS/N /RUS/25	13-5-13	Ministry of Agricultur e of the Russian Federation	Food products	Food safety	Makes modifications in various requirements relating to food safety in the Customs Union legislation	Codex Alimentarius Commission - Yes
G/SPS/N /RUS/26	13-5-13	Ministry of Agricultur e of the Russian Federation	Grain	Food Safety	Makes amendments in the Customs Union legislation, in the provisions regarding the obligatory requirements for import of grain	Codex Alimentarius Commission - Yes