WTO General Council: Russian Federation

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1 Introduction and Executive Summary

While Russia's general influence in the world has been on the rise and Russia has been recognized as a major power again. Despite these successes in recent years, however, Russia has been economically struggling, as it had to deal with fluctuating commodity prices, global sanctions and embargos and other, domestic, issues.

The Russian Delegation in the upcoming WTO meetings should focus on

- reducing sanctions on Russia,
- ensuring stability of commodity prices,
- fostering trust in Russian pipelines.

This brief dossier may serve as some preparatory insights and is a good place to start with the research for the upcoming debates and negotiations in the WTO General Council.

2 Economic Structure

Russia is considered a mixed economy, containing elements of free markets, yet many of the largest corporations are still state-owned or state-controlled. With 58%, the service sector still takes the biggest share of the Russian economy. That is, however, significantly smaller, than in most industrialized countries.

Natural Resources play an important role, as they account for more than 80% of Russian exports abroad. Mining and the production of metals are the two most important exporting industries, contributing to more than half of all Russian exports and making Russia one of the leading exporters of petroleum oil, minerals and gold.

Russia was among the hardest-hit economies by the 2008-2009 global economic crisis: the economy plunged 7.8% in 2009 as oil prices plummeted and foreign credit dried up. The economic contraction was the sharpest since 1994, but no long-term damage was caused due to the government and Central Bank's proactive response. As a result, Russia's economy began to grow again and increased at roughly 4% until 2012, before slowing to 1.3% in 2013.

The Russian economy experienced two major shocks in 2014, narrowly avoiding recession with moderate growth of 0.6%. The first

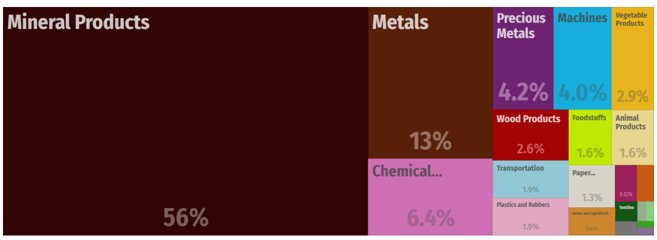

Fig. 1: Russian exports in 2016. Of the total of $ 270 bln, mineral products and metals made up $ 185.3 bln (69%). [1]

Fig. 2: Map of the most important Russian gas pipelines.

shock was the sharp decline in oil prices during the third and fourth quarter of 2014, exposing Russia's extreme dependence on global commodity cycles. After fluctuating within a tight band near $ 105 per barrel from 2011-2013, crude oil prices ended 2014 at less than $ 60 per barrel. The second shock was the economic sanctions resulting from geopolitical tensions, which negatively affected investor appetite for Russian investments. Capital flights and high inflation compound Russia's economic woes as the economy registered the steepest contraction since 2009 contracting 3.7% in the full year 2015. Recession ended by the beginning of 2018. [2]

3 Trade Partners

Russia's main trading partners are China and Germany, or respectively the EU as a whole. Crude oil, petroleum products and natural gas comprise roughly 56% of total exports, metals and rare earth metals represent another 17.2% (see Figure 1). Sales to Europe represent over 60% of total exports while Asia has an export share of roughly 30%. This shows the importance of EU-Russian pipelines for the Russian economy. [2]

In 2017, 39% of the European Union's natural gas total imports originated from Russia. As of 2009, Russian natural gas was delivered to Europe through 12 pipelines (see Figure 2), of which three were direct pipelines (to Finland, Estonia and Latvia), four through Belarus and five through Ukraine. In 2011, an additional pipeline, Nord Stream (directly to Germany through the Baltic Sea), opened. The Nord Stream expansion (Nord Stream 2) is currently being built,

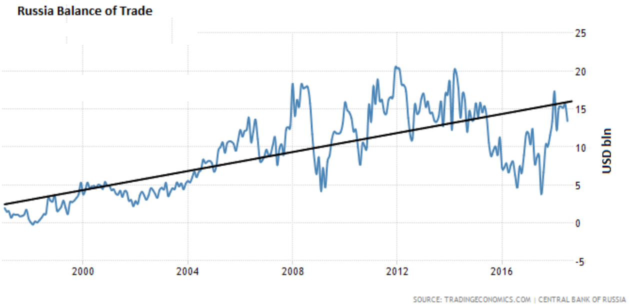

Fig. 3: Russia's balance of trade in $ bln. Russian trade surplus has been on the rise since the beginning of the century. In 2016 the Russian growth experienced a slurp, which had some effect on trade. [3]

as Nord Stream already had a workload of 93% in 2017. Nord Stream 2 will will double the amount of Russian gas arriving in Germany. Russian energy giant Gazprom, which is behind the pipeline, already accounts for around one third of European gas supply.

4 Trade Balance

Russia, in some ways, views trade as a zero-sum game, meaning that only a trade surplus is a win and that a trade deficit marks the losing side. With commodities, such as oil, gas and metals accounting for such a large share of Russian exports, the Russian trade surplus is heavily dependent on commodity prices.

Russia has been running regular trade surpluses since 1998 primarily due to high exports of commodities like crude oil and natural gas. In 2015, trade surplus narrowed significantly, led by the plunge in oil prices and sanctions imposed by Europe and US over Ukraine crisis (see Figure 3). In 2015, the biggest trade surpluses were recorded with: Netherlands, Turkey, Italy and Japan. The biggest trade deficits were recorded with: China, the United States and France. [3]

5 Trade Interests

Among others, the US, as well as parts of the EU itself have criticized the construction of Nord Stream 2 and Gazprom's further involvement in the European energy market. However, construction in the Baltic Sea is already underway. Russia definitely wants to build the pipeline and heavily relies Gazprom's natural gas exports.

6 Recent Developments

In a speech at the UN General Assembly in late September, President Trump slammed Germany over its partnership with Russia on the construction of the Nord Stream 2 pipeline. Trump told Germany to follow PolandâĂŹs example and not rely on Russia for its energy supplies which could make it vulnerable to âĂIJextortion and intimidationâĂİ. âĂIJReliance on a single foreign supplier can leave nations vulnerable to extortion and intimidation and that is why we congratulate European states such as Poland for leading construction of a Baltic pipeline so that nations are not dependent on Russia to meet their energy needs,âĂİ Trump told the United Nations General Assembly.

Most eastern Europe states and the United States argue the proposed pipeline could ultimately limit supply routes and the energy security of the European Union, as well as hurting UkraineâĂŹs efforts to reform its economy as bypassing the country would deprive it of billions of dollars in gas transit fees.

While Berlin and Moscow have been at loggerheads since RussiaâĂŹs annexation of Crimea four years ago, they share a common interest in the Nord Stream 2 pipeline project.

7 References

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