

## **I. Introduction**

The submissions and testimony provided in this inquiry demonstrate that the Russian economy does not operate on market principles, and accordingly revocation of NME Status is inappropriate at this time. *See* 19 U.S.C. § 1677(18)(A). Those parties in opposition to revocation have submitted more than sufficient evidence that indicates that each factor in the Department's six prong-test supports a determination that Russia continues to merit NME treatment. These additional comments are in response to a panel member's question at the hearing, and provide further information in regard to the extent of price control in the Russian Federation.

## **II. Russian Government Interference in Pricing Decisions is Extensive**

The evidence submitted to the Department, including the testimony at the recent hearing, demonstrates that business conditions in the Russian Federation do not reflect market principles. As this inquiry takes place in the context of antidumping and countervailing duty proceedings, the cost and profit distorting effects of government intervention is a primary focus. Specifically, as input prices and costs are not set by market forces in Russia, any subsequent analysis in an antidumping investigation of normal value will be extremely distorted. Accordingly, and in response to a question by the hearing panel member, this submission will highlight the extent of government control of prices in the Russian Federation. It is respectfully submitted that Russian governmental price intervention is so extensive that it would distort the answers to essential factual questions in antidumping investigations, and consequently maintenance of NME status is appropriate.

We note initially that the Department has recently found that the extent of government control over prices in Russia severely distorts the economic landscape. Specifically, the Department acknowledged that "{t}he Russian economy remains a hyper-industrialized system

composed of enterprises that would not be viable in a market economy, supported by transfers from energy and raw material sectors.”<sup>1</sup> The Department further noted that electricity suppliers were not motivated by profits but instead that the sector was used as a “source of subsidies to inefficient industries . . . .”<sup>2</sup> As energy costs are frequently an essential issue in antidumping and countervailing duty investigations, a decision to now revoke NME status will unquestionably result in more complicated and less reliable decisions by the Department.

The Russian Government has admitted that it regulates the prices of goods and services representing at least 15 percent of the national GDP,<sup>3</sup> and this figure in reality may be much, much higher. Price regulation exists for gas, electricity, and heat energy; transshipment of oil through pipelines; railroad services; port services; defense products; “ritual services;” and even drugs, prosthetic and orthopedic appliances.<sup>4</sup> In Russia, “nearly 80 percent of national income is socialized through hidden subsidies and cross-subsidies. This amounts to nearly-total socialism . . . .”<sup>5</sup> As a witness on behalf of revocation testified, in 2002, 85 percent of sales in the electricity market alone will be regulated by the Government. Tr. at 19.<sup>6</sup> Additionally, and as was acknowledged at the hearing, the European Bank for Reconstruction and Development estimates that the Government owns approximately 30 percent of businesses (as expressed against GDP) in Russia. Tr. at 23. Additionally, these figures do not reflect the realities of barter transactions in

---

<sup>1</sup> U.S. Department of Commerce, Global Steel Trade Report at 49.

<sup>2</sup> Id.

<sup>3</sup> Memorandum of the Russian Federation at 22.

<sup>4</sup> Id.

<sup>5</sup> *The Russian Economy, Fact and Fancy about Post-Communist Economic Reforms*, November 21, 2000, available at [www.russiaeconomy.org/comments/112100.html](http://www.russiaeconomy.org/comments/112100.html) (attached as Exhibit 7).

<sup>6</sup> “So in this year, about 15 percent of the sales in the electricity market will be non-regulated.” Tr. at 19 (Sharanov).

the Russian Federation. As was acknowledged at the hearing, the use of barter, rather than cash payments, further distorts the cost and prices of Russian goods. *See* Tr. at 59-60.

As has been extensively detailed in the submissions in this investigation, Russia's involvement in pricing decisions distorts market conditions and fully supports the maintenance of NME status.

### III. **Russian Interference in Pricing Decisions is More Invasive Than Found in a Market Economy**

A panel member asked for additional information regarding the extent of price regulation in Russia as compared to Western economies.<sup>7</sup> The answer to this question further illustrates that Russia is not currently a market economy. As stated above, comments submitted in favor of revocation concede that price regulation of goods and services in Russia account for 15 percent of GDP. In light of the questionable statistics put forward by those requesting revocation,<sup>8</sup> the 15 percent figure should be considered a very low estimate of the actual extent of price regulation in Russia. In the United States, approximately 1.50 to 4.87 percent of GDP is subject to price regulation.<sup>9</sup> The juxtaposition of these facts, in effect that the extent of price regulation is very likely ten times more severe in Russia, further demonstrates that revocation is inappropriate at this time.

---

<sup>7</sup> Tr. at 172 (Mayer).

<sup>8</sup> As one example, witnesses in favor of revocation testified that businesses that were up to 49 percent owned by the government were considered "private" for purposes of their data collection. *See* Tr. at 22.

<sup>9</sup> Office of Management and Budget, *Draft Report to Congress on the Costs and Benefits of Federal Regulations*, at Appendix C (2001), relevant section attached as Exhibit 1; telephonic discussion of April 5, 2002, with official, Office of Information and Regulatory Affairs, Office of Management and Budget. The OMB report states that "economic regulation restricts the price or quantity of a product or service that firms produce including whether firms can enter or exit specific industries." *Id.* at 53, n. 16. As the OMB report uses such a broad definition, the 1.5% figure (which addresses economic efficiency loss) likely overstates the actual extent of "price controls" in the United States, with 4.87 percent (including transfer costs) representing an extremely conservative estimate. Although the terms and statistics involved are subject to various interpretations, it is clear that Russian price controls are several magnitudes more intrusive than those found in the United States.

As a note of caution, those in favor of revocation attempted to confuse the issue of control over prices in the private sector with statistics concerning government spending as a percentage of GDP.<sup>10</sup> The first factor concerns interference by the government over price and production decisions in the private sector, and accordingly is relevant as to a determination of NME status. However, federal spending as a percent of a nation's GDP is not material as to whether the country operates on free market principles. Consequently, the Department should not allow those seeking revocation of NME status to confuse the issue.

The fact remains that Russia directly interferes in pricing decisions affecting numerous sectors of their economy. A very conservative estimate of the extent of price controls of Russia is 15 percent of GDP, and which may be ten times higher than that found in the United States. Furthermore, the Russian government indirectly controls and distorts numerous other elements of the economy. The extent of the Russian Government's intervention in pricing and production decisions justifies maintenance of NME status.

#### **IV. Conclusion**

In conclusion, neither the Russian Government nor Russian steel producers have submitted evidence sufficient to demonstrate that the Department should revoke Russia's NME status. The Russian government's restrictions on its unstable currency, the denial of fundamental worker rights, limitations on foreign investment, and the control of production, prices and resources – all contrary to free market principles - as well as the existence of a massive black market clearly indicate that Russia is still an NME. In response to a specific question by a panel member, Russia has price controls in the magnitude of ten times higher than those found in the

---

<sup>10</sup> See e.g. Tr. at 183.

United States. Accordingly, the Department should not alter Russia's designation as a nonmarket economy at this time.