



**Principles of Economic Analysis to  
Verify whether Pricing Practices  
Comply with the Law “On  
Protection of Competition”**

**(FAS Russia)**

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## Appendix

### Determining the acceptance criteria for pricing practices

#### I. General Provisions

The Principles are aimed to determine unified approaches to analyzing whether pricing practices of economic entities that have the dominant market position comply with Clauses 1 and 6 Part 1 Article 10 of No.135-FZ Federal Law “On Protection of Competition” of 26.07.2006 (further on referred to as the Federal Law “On Protection of Competition”), and to enhance the quality of economic analysis of pricing practices of economic entities with the dominant market position and expanding the practice of applying the “comparable markets method”<sup>1</sup> in such analysis.

The Principles determine:

- In the part of analyzing whether pricing practices comply with Clause 1 Part 1 Article 10 of the Federal Law “On Protection of Competition”: the methodology for estimating **the price cap, below which the price fixed by an economic entity cannot be recognized monopolistically high.**
- In the part of analyzing whether pricing practices comply with Clause 6 Part 1 Article 10 of the Federal Law “On Protection of Competition”: the acceptance criteria for economic entities with the dominant market position to fix higher prices for consumers on domestic markets (consumers in the nearby areas) in comparison with prices for foreign consumers (consumers in remote areas).

Analyzing pricing practices, the economic characteristics and specifics of state regulation of the markets in question should be taken into account as much as possible. Such characteristics include:

- Market share of economic entities
- Structure of goods flows (the ratio between supplies to the domestic markets (the nearby areas) and foreign markets (remote areas));
- Ratio of the logistic costs to deliver goods to the consumption location and the goods value
- Level of prices on other markets with relatively developed competitive environment

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The “method of comparable markets” implies comparing the level of prices fixed by the dominant economic entity on the market in question with the level of prices fixed in the same period by this or other economic entities on other markets (in terms of their geographic boundaries) with more developed competitive environment or a level of exchange indices.

- Ratio of production output, generating economy of scale, and demand for the goods on the domestic market (the neighboring area)
- Price demand elasticity
- Government regulation
- Market performance characteristics for subsequent technological process stage of production
- and so on.

Issuing a determination on pricing policy (in the part of establishing a justified price level or eliminating price discrimination) not factoring in the above market characteristics can cause adverse consequences for producers (sellers) of the goods in question as well as for consumers. For instance, defining the accepted price levels using the “costs method” without factoring in economic characteristics of market performance at the level lower than the level of prices on comparable markets can decrease efficiency of producer’s performance (since cost saving incentives decrease), change goods flows and create shortage of the goods on the domestic market, etc.

The scope of applicability:

1. The Principles shall apply to the markets of:

- Raw materials at the first – third technological process stages (for instance, furnace coke, iron ore raw material, potassium chloride, apatite concentrate, etc.)
- Semi-finished products (for example, metal slab; square and round billets; pigs / ingots of non-ferrous metals and alloys, etc.), used at the subsequent technological process stages
- Metal products (for instance, sheets, sections, rail tracks, pipes, etc.)
- Construction materials (for example, cement, concrete, studs, plates, bricks, etc.)

2. The Principles shall not apply to the markets of innovative goods, markets of services and the markets where consumer preferences are determined by brands along with goods qualities.

The antimonopoly authority can use other principles of analyzing pricing practices on particular markets in view of the specifics of such markets.

## **II. Estimating economically justified prices for expert-oriented economic entities**

## 2.1. Applying the Netback method minus logistic costs (the “Netback minus” method)

2.1.1. “Netback minus” means estimating the economically justified price level using price (exchange and off-exchange) index formed on the world market in more developed competitive environment in comparison with the domestic market, adjusted downwards to the amount of logistic costs of delivering goods to the relevant world market (price reduced to EXW delivery basis). Price indices can be exchange quotations (for instance, London Metal Exchange<sup>2</sup> (LME)), as well as data on goods prices formed in the relevant regions across the globe that are published by international analytical agencies (for example, Argus, Platts<sup>3</sup>, Metal bulletin<sup>4</sup>, The Steel Index<sup>5</sup>, Metalltorg<sup>6</sup>, etc.). Estimating economically justified prices, it is important to factor in not only a particular index but also various regional premiums, mark-ups or extra payments that consumers actually pay to the sellers in a region in question.

The price index should be an index formed in the area where the most export supplies by the residents of the Russian Federation are concentrated, and it should characterize the situation on the market with relatively developed competition.

In general the estimating formula is as follows:

$$P = I \times k - L - C$$

*P* – Economically justified price set for Russian consumers on EXW delivery basis producer warehouse (w/o VAT)

*I* – Market index formed in the area of active consumption of the goods on the world market with developed competition environment

*k* – Adjustment coefficient that determines various product characteristics

*L* – Actual logistic costs to deliver goods to the relevant foreign market

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<sup>2</sup> <http://www.lme.com;>

<sup>3</sup> <http://www.platts.com;>

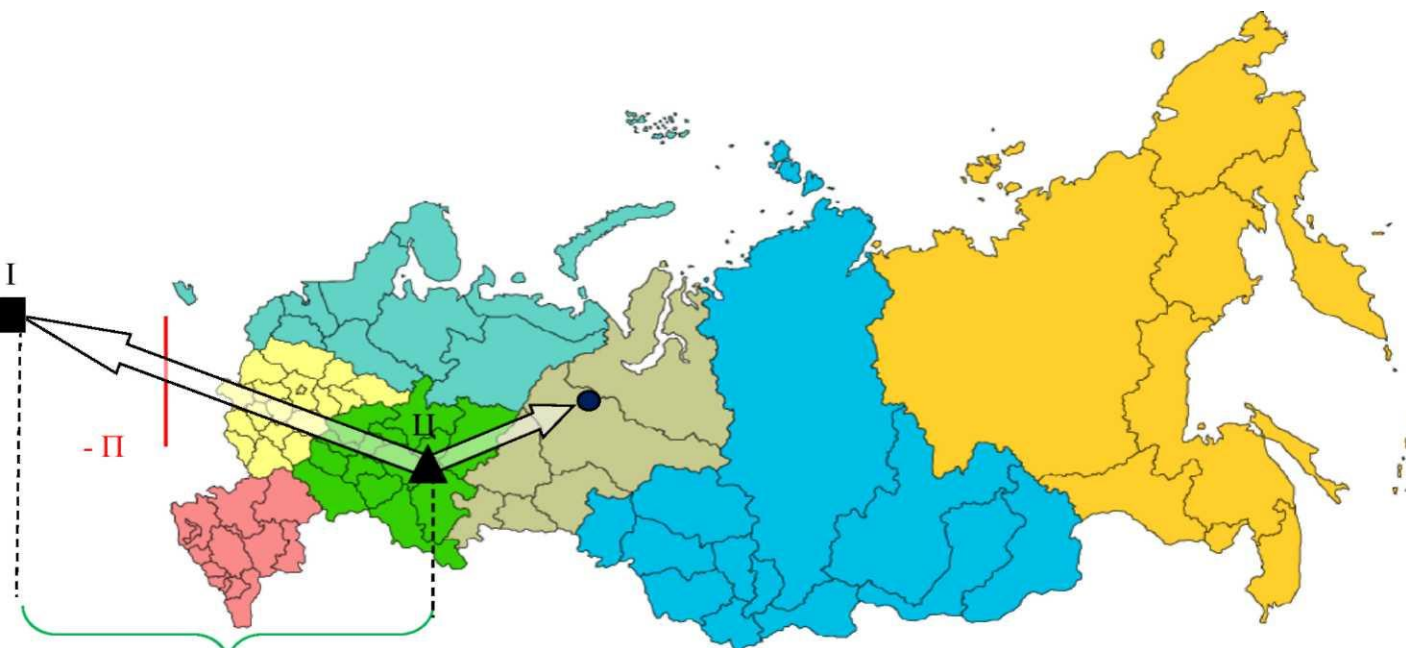
<sup>4</sup> <http://www.metalbulletin.com;>

<sup>5</sup> <https://www.thesteelindex.com;>

<sup>6</sup> <http://www.metaltorg.ru>

C – Export customs duty. Can include other payments, mandatory under the law for exporting goods from the Russian Federation.

**A graphic illustration of applying the “Netback minus” method:**



^ - producer / supplier in the Russian Federation

O - domestic consumer    **F** - foreign consumer

- delivery directions | - border crossing when export duty (other payments) are required

2.1.2. The conditions for applying the “Netback minus” method for estimating economically justified prices.

It is expedient to use the “Netback minus” method if:

- There are exchange or off-exchange indices that reflect the level of prices on the world markets with relatively developed competitive environment. Typically, such price indices are applied by sellers and consumers as price guideposts establishing pricing mechanisms under the contract conditions (examples can be found in the Appendix).

- The analyzed subject-matter is the pricing policy of an economic entity with the dominant position that supplies out of bounds of the Russian Federation (or the Common Customs Space, depending on the geographic market boundaries), considerably exceeding (in quantitative terms) or

comparable with supplies to the domestic market. It can include comparing the overall export supplies with supplies to the domestic market as well as supplies under separate contracts with foreign and Russian consumers.

- Transportation costs for delivering goods to the world markets are insignificant in comparison with the goods value (within 10-15% of the goods value), while the price determined using “netback minus” is higher than the level of the costs of production (otherwise “premium” Netback should be applied, for instance, accounting for only a part of logistic costs or not factor in the logistic costs at all and use the “direct price” method – see Section IV).

Price estimated in accord with the “Netback minus” method is representatives for an economic entity if:

- The overall exported goods (goods exported to a particular region or goods exported under a particular contract) (other conditions being equal) exceed considerably or are comparable with supplies to the domestic market (supplies to a particular region or supplies under particular contracts with Russian consumers). Comparing prices under particular contracts, supplies to a particular consumer for the first time (sample shipments) should not be taken into account;

- Supplies to export consumers have stable scope of delivery and the structure of goods flow. This condition minimizes the risks of differences between the actual average weighted export alternative, and economically justified price, estimated by the antimonopoly body using the “Netback minus” method when issuing a determination with regard to the future pricing practice of a dominant economic entity;

Notes:

1) If not all dominant economic entities supply goods in the territory of export markets (for example, due to their remoteness from such markets), to determine economically justified price cap on the domestic market it is possible to apply the “direct price” method along with “Netback minus” (Section IV).

2) Issuing a determination to a dominant economic entity with a requirement on estimating prices for domestic consumers in accord with “Netback minus”, the estimated price should not differ considerably from the average export alternative. A downward difference between the price estimated using the “Network minus” method and the export alternative may cause such adverse consequences as withdrawing goods from circulation in the Russian Federation.

### **An example for estimating price using “Netback minus”**

The market of primary aluminum in the Russian Federation is export-oriented: the export share is over 90%. The only producer in the Russian Federation is “RUSAL” Group comprising 12 plants in Russia. Aluminum transportation costs do not exceed 10% (3-6%). Both foreign and Russian companies use quotations of primary aluminum and its alloys at London Metal Exchange (LME), as the exchange indices of metal prices.

According to a FAS determination, members of the “RUSAL Group (the only producers of primary aluminum in the Russian Federation) should not fix the ex-works price for primary aluminum for consumers (buyers) in the Russian Federation higher than the price (P1), estimated on the basis of EXW or FCA (ex-works) railway station or consignor’s warehouse under the formula:  $P1 = LME1 + \Pi A7$ , где

LME1 – average quotation for a particular aluminum brand at London Metal Exchange (LME) in a particular period;

$\Pi A7 = P_{\text{preg}} - L_f - L_t$ , where:

$P_{\text{preg}}$  – average regional premium for aluminum of a particular brand on the main segment of the world market for particular goods where RUSAL exports the most amount of goods in comparison with other segments of the world market (the main segment of the world markets: Europe, Asia or America) in the period similar to the period selected to determine LME1. The following premium indices are used in the main segments of the world market: Europe – “CIS-origin: index warehouse Europe: A7e premium” or “MB Aluminium Premium Rotterdam Low – High” (Metal Bulletin Daily - [www.metalbulletin.com](http://www.metalbulletin.com) ); Asia - “Aluminum CIF Japan premium (\$/mt) (“Platts Metals Daily” - [www.platts.com](http://www.platts.com) ); America – “Aluminum MW US Transaction premium (eVlb) (“Platts Metals Daily” - [www.platts.com](http://www.platts.com));

$L_f$  – the average weighted value of the actual logistic expenses by RUSAL for freight from a port in RF (the main RF port through which aluminum is shipped for sale in the Main segment of the world market) to the destination port outside RF (a port of the Main segment of the world market) in the 3<sup>rd</sup> month preceding the shipment month;

$L_t$  - the average weighted value of the actual logistic expenses by RUSAL to deliver aluminum from producers to the Main RF port in view with port transshipment costs in the 3<sup>rd</sup> month preceding the shipment month.



## **An example of estimating k coefficient**

The market of iron ore raw materials (IORM) in the Russian Federation is export-oriented. International analytical agencies, such as Steel Business Briefing or Platts, publish data on prices for iron ore raw materials with different iron content.

The only producer of vanadium IORM in the Russian Federation is “Vanadium” Kachkanarsky Mining-and-Processing Integrated Works” OJSC (EvrazHolding Group). At the same time, there are no data on prices for vanadium iron ore raw materials that are similar to the raw materials produced in RF by “Vanadium” Kachkanarsky Mining-and-Processing Integrated Works” OJSC. To prevent abusing dominance by “Vanadium” Kachkanarsky Mining-and-Processing Integrated Works” OJSC, FAS issued a determination to fix price for vanadium IORM for Russian buyers on FCA delivery basis (dispatching station), not exceeding the price ( $C_{max}$ ), estimated according to the formula based on the published indices in view with the adjustment coefficient:  $C_{max} = (ChinaCFR63\% * K) * \$CB - ED - L$ , где:

ChinaCFR63% - average weighted index “Chins import CFR N/Chins port \$/t” for iron ore raw materials with 63% iron content in the quarter preceding the delivery quarter, published by Steel Business Briefing;

**K – adjustment coefficient on the product quality estimated IORM iron content by the following formula:**

$$K = (\text{Fe content in IORM of Kachkanarsky Mining-and-Processing Integrated Works, \%}) / 63\%.$$

\$CB – average official exchange rate for US\$ set by the Central Bank of Russia in the quarter preceding the delivery quarter;

ED – export duties in the quarter preceding the delivery quarter;

L – logistic costs of goods transportation and loading, estimated for the quarter preceding the delivery quarter, and comprising the railway tariff from the dispatching station of “Vanadium” Kachkanarsky Mining-and-Processing Integrated Works” OJSC to the port and transshipment in the port.

## **2.2. Estimating economically justified prices based on the data on average weighted prices (the method of “average weighted prices”)**

2.2.1. The method of “average weighted prices” is estimating economically justified level of price based on the data on the level of average weighted prices (on EXW delivery basis - producer warehouse), set in the preceding period (for instance, the preceding week, month, quarter) by economic entities for foreign consumers operating in the markets with more developed competitive environment than in the Russian Federation.

In general the estimating formula is as follows:

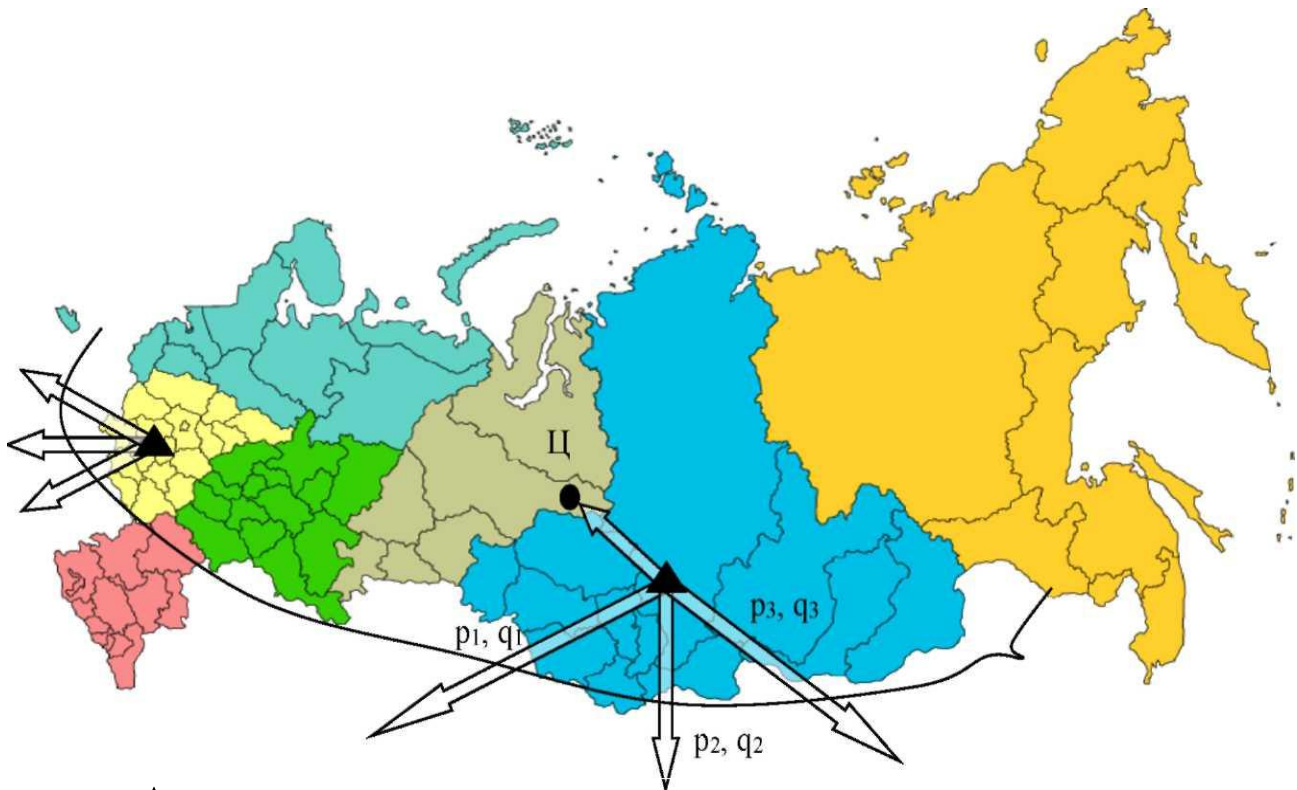
$$q_i + q_n$$

$P$  – economically justified price set for Russian consumers on FCA delivery basis – dispatching station and / or EXW producer warehouse (w/o VAT);

$P_i$  – price on FCA delivery basis – dispatching station and / or EXW producer warehouse (w/o VAT), set for  $i$ -buyer in the preceding period;

$q_i$  – goods sold to the  $i$ -buyer in the preceding period at  $P_i$

A graphic illustration of applying “average weighted prices”:



$A$  – producer / supplier in the Russian Federation  $O$  – domestic consumers  
directions of supplies

### 2.2.2. Conditions for applying the “average weighed prices” method.

It is reasonable to use this method if:

- World markets lack any price (exchange and off-exchange) indices of price movements;
- The analyzed subject-matter is the pricing policy of dominant economic entities that supply out of bounds of the Russian Federation (or the Common Customs Space, depending on the geographic market boundaries) exceeding (in quantitative terms) or comparable with supplies to the domestic market;
  - An economic entity exports insignificant quantities of goods to numerous regions. In this case it is impossible to determine a separate “representative” region for estimating prices in accordance with “Netback minus”;
  - Supplies to export consumers are not stable in terms of both scope and the structure of the goods flow;
  - Transportation costs of delivering goods to the world markets are insignificant in comparison with the goods value (within 10-15% of the goods value), while the price determined by the “average weighted prices” method is higher than the level of the cost of production (otherwise the “direct price” method should be applied – see Section IV).

Note:

- 1) A necessary condition for the data to be representative is not only considerable export supplies but a high frequency of such supplies (comparable with the supply frequency to the main consumers operating in the Russian Federation).
- 2) If not all dominant economic entities supply goods in the territory of export markets (for example, due to their remoteness from such markets), to determine economically justified price cap on the domestic market it is possible to apply the “direct price” method along with the “average weighted price” method (Section IV).

## **Example of estimating prices in accord with the “average weighted prices” method**

The market of potassium chloride in the Russian Federation is export-oriented: the export share is over 75%. Two companies produce potassium chloride in the Russian Federation: “Uralkali” OJSC and “Metakhim” OJSC. “Uralkali” OJSC has the dominant position on the market of potassium chloride in the Russian Federation with over 98% share. There are no exchange indices for potassium chloride.

At the beginning of 2013, FAS devised recommendations to support non-discriminatory access to acquiring potassium chloride using the method of “average weighted prices”. According to the recommendations, the fair potassium chloride price for Russian producers and consumers of complex mineral fertilizers is the price not exceeding the minimum export price.

The minimum export price for potassium chloride is FCA Price, which is the average weighted price of 95% powdered potassium chloride, in bulk, exported by a Russian producer on the market with the minimum price under FCA conditions (FOB dispatching station), as well as other conditions net of additional costs related to other conditions (for example, logistic costs). The market with the minimum price is the country of destination, where consignees were shipped no less than 50,000 tons of products and the minimum average weighted price of shipments to which is formed under FCA conditions.

### **III. Estimating Economically Justified Prices on the Import-Oriented Markets**

#### **3.1. Applying the netback method adding logistic costs (“Netback plus”)**

3.1.1. “Netback plus” is estimating economically justified price level using price index (exchange and off-exchange) formed on the world market under the conditions of more developed competitive environment in comparison with the domestic market adjusted upwards for the amount of logistic costs for delivering the goods from abroad to the domestic market (the price reduced to DDP delivery basis). The price indices can be exchange quotations as well as data on goods prices in the relevant regional across the world published by international analytical agencies. Estimating economically justified prices, it is important to factor in not only a particular index but also various regional premiums, mark-ups or extra payments that consumers actually pay to sellers in a region in question.

The price index should be an index formed in the area, where the most import supplies to the Russian Federation are generated, and this index should characterize the situation on a market with relatively developed competition.

In general the estimating formula is as follows:

$$P = I \times k + L + C$$

$P$  - Economically justified price set for Russian consumers on EXW delivery basis producer warehouse (w/o VAT)

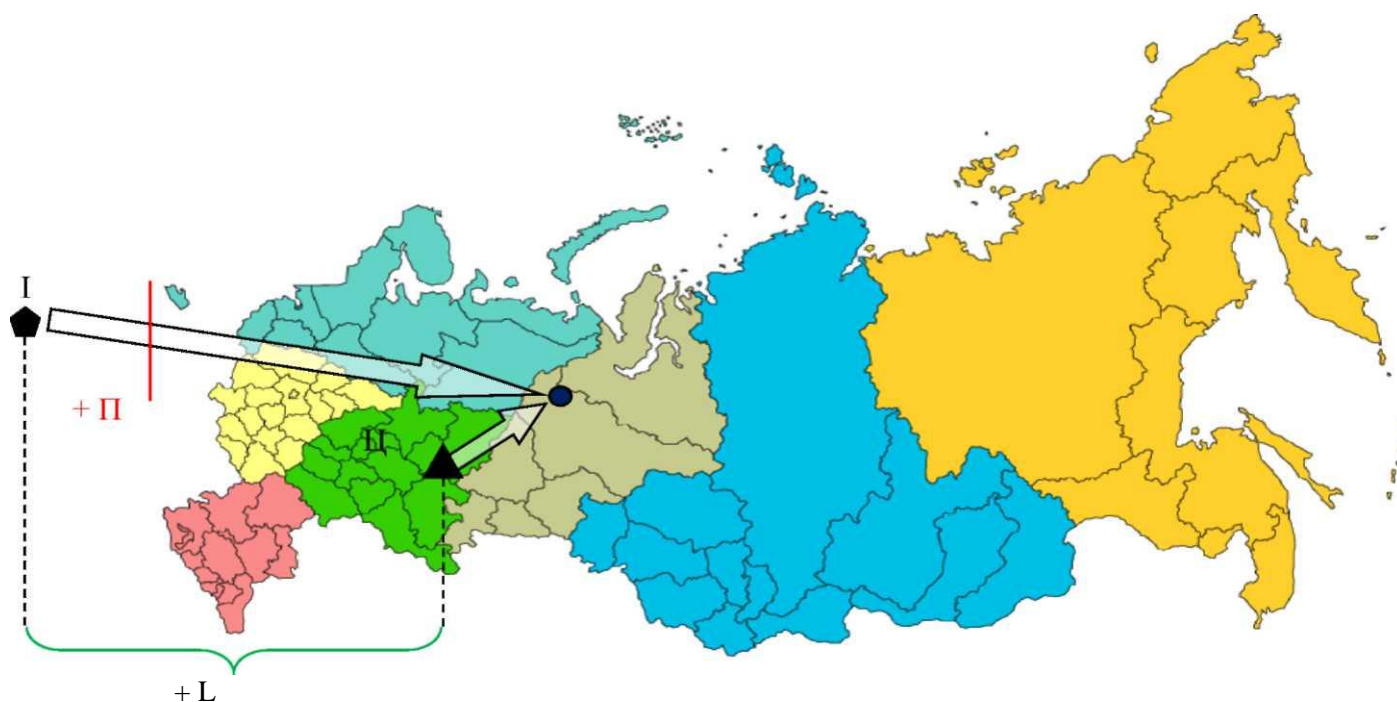
$I$  - Market index formed in the area of active consumption of the goods on the world market with developed competition environment

$K$  - Adjustment coefficient that determine various product characteristics

$L$  - Logistic costs to deliver goods to the domestic market

$C$  - Import customs duty. Can include other payments, mandatory under the law for

**A graphic illustration of applying the “Netback plus” method:**



+ L  
importing goods to the Russian Federation.

- producer / supplier in the Russian Federation    O - domestic consumer

^ - foreign producer / supplier

- Supply directions

- Border crossing when export duty (other payments) are required

3.1.2. The conditions for applying “Netback plus” method for calculating economically justified price.

Applying “Netback plus” is expedient if:

- There are exchange or off-exchange indices that reflect the level of prices on the world markets with a relatively developed competitive environment. Typically, such price indices are applied by sellers and consumers as price guideposts establishing pricing mechanisms under the contract conditions.

- The analyzed subject-matter is the pricing policy of economic entities with the dominant position operating on the import-oriented markets – markets where domestic production is insufficient to fully satisfy

demand, import is comparable with the output produced in the Russian Federation<sup>7</sup>, and export is absent or is insignificant.

#### IV. Estimating Economically Justified Prices on Equilibrium Markets

##### 4.1. Estimating economically justified prices based on world indices without adjusting for logistic costs (the “direct price” method)

4.1.1. The “direct price” method is estimating economically justified price level using a price (exchange or off-exchange) index formed on the world market in a more developed competitive environment in comparison with the domestic market. The price indices can be exchange quotations as well as data on goods prices in the relevant regional across the world published by international analytical agencies. Estimating economically justified prices, it is important to factor in not only a particular index but also various regional premiums, mark-ups or extra payments that consumers actually pay to sellers in a region in question.

The price index should be an index formed in the:

- Area of active goods consumption (markets characterized by the largest consumption of the goods in question)
- Market where the state regulation conditions are comparable with the regulatory conditions in the Russian Federation (see Notes 2 Section IV)
- Market with a relatively developed competitive environment.

In general the estimating formula is as follows:

$$P = I x k$$

*P* - Economically justified price set for Russian consumers on EXW delivery basis producer warehouse (w/o VAT)

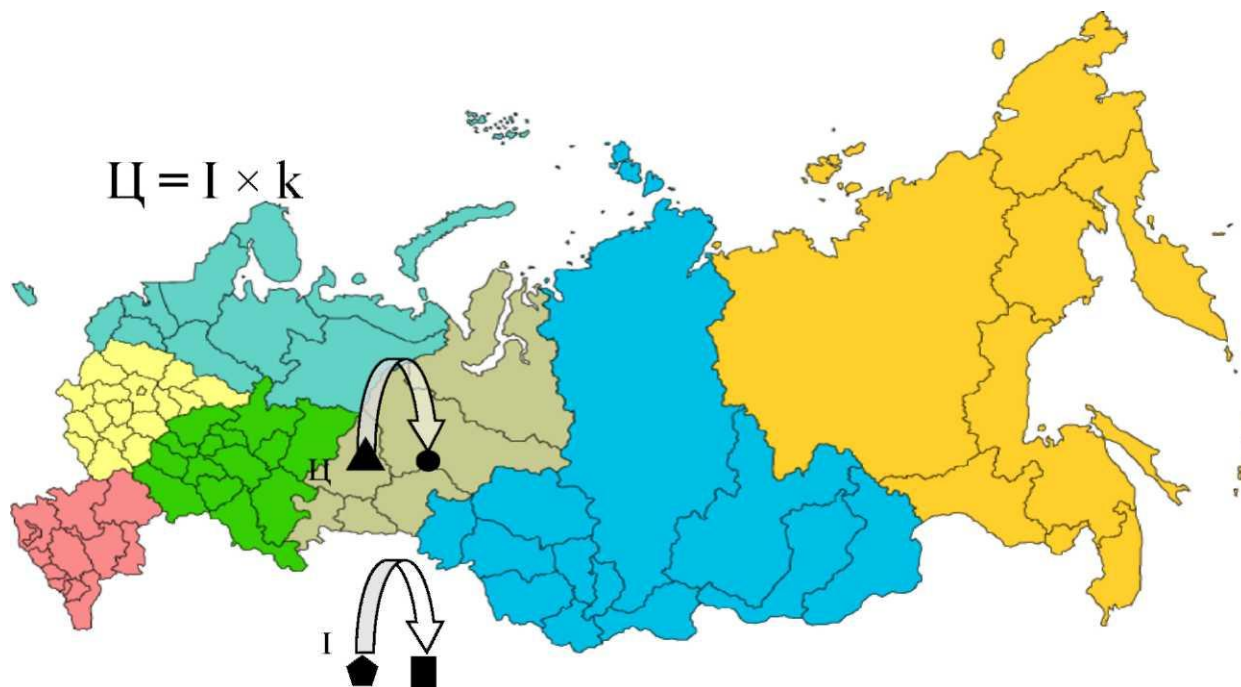
*I* - Market index formed in the area of active consumption of the goods on the world market with developed competition environment

*k* - Adjustment coefficient that determine various product characteristics.

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<sup>7</sup> The geographic boundaries of a market with over 10% import can be recognized the boundaries of the Russian Federation if there are any objective restrictions for domestic consumers to increase import, such as quotes, goods shortage on the market as well as administrative or technological restrictions.

## A graphic illustration of applying the “direct price” method:



- producer / supplier in the Russian Federation O - domestic producer

^ - foreign producer / supplier | - foreign consumer

- supply directions

### 4.1.2. The conditions for applying the “direct price” method.

The “direct price” method is expedient if:

- There are exchange or off-exchange indices that reflect the level of prices on the world markets with relatively developed competitive environment. Typically, such price indices are applied by sellers and consumers as price guideposts establishing pricing mechanisms under the contract conditions.

- The analyzed subject-matter is the pricing policy of economic entities with the dominant position operating on equilibrium markets: markets where domestic production is comparable with domestic demand, (deviation does not exceed 5-10%), and export-import are absent or insignificant

- Logistic costs for delivering goods to consumers to / from the Russian Federation are considerable in comparison with the goods value (more than 15-20% of the goods value).

Notes:

1) Applying the “direct price” method to estimate economically justified price level for the goods used by consumers for industrial purposes, the level of estimated price should be assessed for the risks of eliminating competition on the adjacent market. If the price estimated using the “direct price” method does not eliminate possibility for Russian economic entities to compete on the market with foreign producers adjacent to the market in question, this price can be recognized economically justified (complying with Article 6 of the Federal Law “On Protection of Competition”).



2) To objectively compare prices on the analyzed market with prices formed within other geographic boundaries, it is necessary to establish that within such geographic boundaries there are no regimes of regulating economic activities directly influencing the price level. Such regulatory regimes include:

- Direct state regulation of prices (setting the maximum and minimum price levels)
- Subsidizing prices
- Tax privileges for export / import
- Legislative setting of the price level
- Restricting import / export
- Administrative restrictions upon consumers to switch to other goods or other suppliers, etc.

Comparing absolutely all regulatory conditions (tax, labour, technical) in terms of their monetization in the form of the costs incurred by economic entities does not have any economic sense because price on competitive markets, formed without any administrative restrictions is fixed by sellers at the level reflecting the general conditions on such market, regardless of the costs level of particular economic entities. In the absence of barriers for switching consumers from one supplier to another, none of the suppliers operating in highly competitive markets can fix the price at the level exceeding competitors' prices without losing considerable revenues. Therefore, producers in highly competitive markets take price as a given value regardless of the pattern of production costs. Under developed competition, increased production costs result in increased prices only if increased costs apply to all producers (sellers) evenly. Otherwise, increased costs of particular economic entities that do not have a high market share cannot influence the prices considerably. That is why it is possible for the antimonopoly authority not to take into account particular differences in regulating activities of economic entities (for instance, in tax or labour law) comparing the level of prices on competitive and non-competitive markets.

**If the price fixed by an economic entity exceeds the price estimated using the methods described in Sections II - IV of the Principles, such price has elements of monopolistically high price and must be studied in detail by the antimonopoly authority for economic and technological justification.**

**V. Determining the criteria for setting higher prices for the same goods for Russian consumers in comparison with foreign consumers other conditions being equal**

5.1. Setting higher prices for the same goods for Russian consumers in comparison with foreign consumers other conditions being equal

Depending on the market performance characteristics, setting higher prices on EXW delivery basis for the goods for Russian consumers in comparison with prices for foreign consumers can ensure the most efficient use of resources and create advantages for all groups of consumers of the goods in question. For instance, if production output generates economy of scale and price demand is non-elastic (limited by the adjacent market capacity), then increasing export supplies due to reduced prices (even to the break-even level) can considerably decrease the average production and sales costs and, as a consequence, will enable reducing prices for domestic consumers. On the contrary, restricting export supplies when domestic demand is non-elastic can lead to increased average costs and a growth of prices for domestic consumers.

5.2. The conditions for allowing higher prices for Russian consumers in comparison with foreign consumers.

Higher prices on EXW basis for Russian consumers in comparison with foreign consumers can be acceptable when market has the following characteristics:

1. Production of the goods is characterized by a high level of fixed costs, when economy of scale can be achieved only at the maximum output (in comparison with designed capacities)
2. The total of output produced by economic entities, achieving economy of scale, exceeds internal demand
3. Export by each producer is insignificant
4. Transportation costs for delivering goods to the world markets are considerable in comparison with the goods value and the level of price determined using the “Netback minus” method is lower or comparable with the level of the costs of production
5. Domestic demand is fully satisfied and reducing prices does not increase domestic consumption
6. The antimonopoly authority has not revealed any facts or elements of violations by any economic entity under Clauses 4, 5, 9 Part 1 Article 10 of the Federal Law “On Protection of Competition”.

In general the estimating formula is as follows:

$$P_{foreign} = I \times k - L - C$$

$$P_{RUSS} = I \times k$$

$P_{foreign}$  - Price set for foreign consumers on EXW delivery basis producer warehouse (w/o VAT)

$P_{RUSS}$  - Economically justified price set for Russian consumers on EXW delivery basis producer warehouse (w/o VAT)

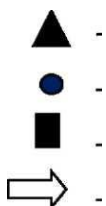
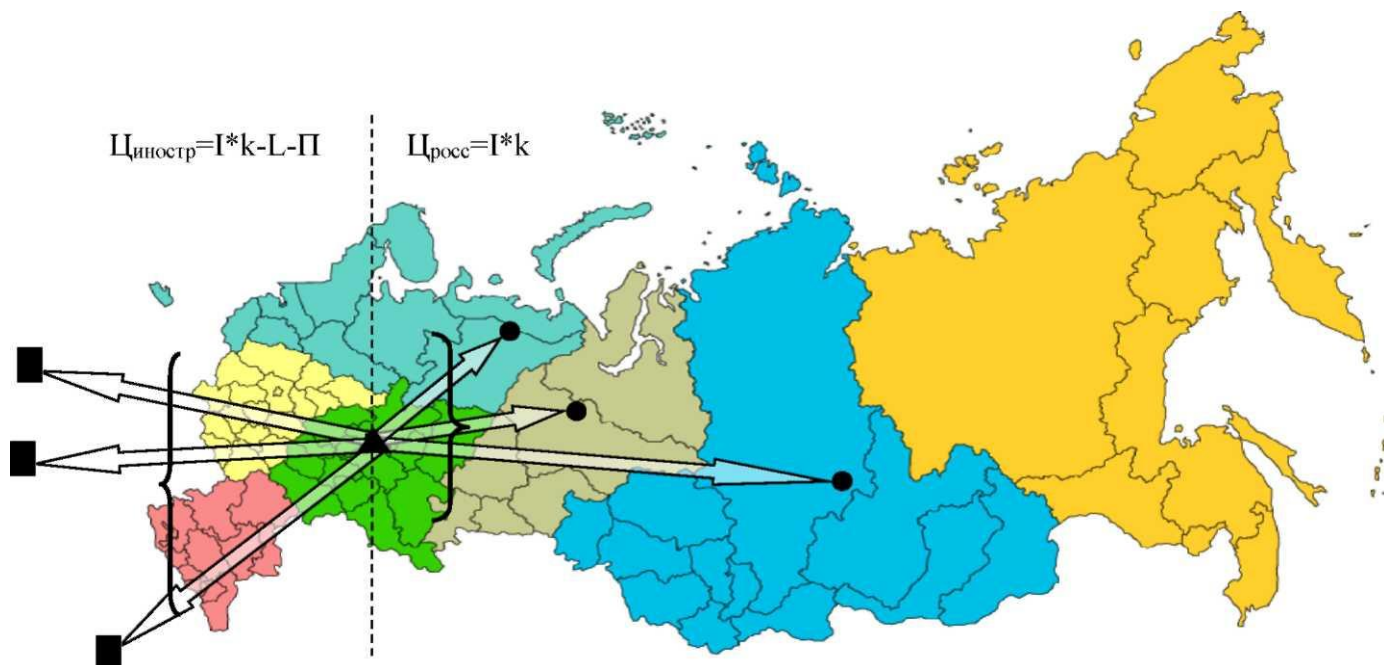
$I$  - Market index formed in the area of active consumption of the goods on the world market with developed competition environment;

$k$  - Adjustment coefficient that determine various product characteristics

$L$  - Logistic costs to deliver goods to the domestic market

C - Export customs duty. Can include other payments for exporting goods from the Russian Federation.

**A graphic illustration:**



- producer / supplier in the Russian Federation
- domestic consumer
- foreign consumer
- supply directions

**Notes:**

- 1) Price set by an economic entity for domestic consumers should not exceed the price estimated using the “direct price” method (see Clause 4.1 of the Principles).
- 2) If goods are consumed for the production purposes, then fixing higher prices for Russian consumers in comparison with foreign consumers shall be accepted factoring in logistic costs of Russian producers to deliver the end goods (the goods at the subsequent technological process stage) to consumers in the world markets.

Therefore, the difference in prices for Russian and foreign consumers should not lead to restricting or eliminating competition on the adjacent markets.

## **VI. Acceptance of higher prices for the same goods for consumers located in direct vicinity of a producer in comparison with consumers located in the areas remote from the producer**

6.1. Setting higher prices for the same goods for consumers located in direct vicinity of the producer in comparison with consumers located in the areas remote from the producer.

Prohibiting higher prices for the same goods for consumers located in direct vicinity of the producers, on EXW basis, under certain conditions can result in narrowing the geographic markets boundaries (narrowing supply geography), increased market power of economic entities on the local markets, reduced production output and, as a consequence, increased costs and prices.

Depending on the market performance characteristics, setting higher prices on EXW basis for the consumers located in direct vicinity of the producers (local consumers) in comparison with the prices for consumers located in remote areas can ensure the most efficient use of resources and create advantages for all groups of consumers of the goods in question. For instance, if production output under which economy of scale is achieved, considerably exceeds the local demand, and demand is price non-elastic (restricted by adjacent market capacity), then increasing supplies to the area remote from producers due to reduced prices (even for the break-even level) can significantly reduce the average costs of production and distribution, and, as a consequence, reduce prices for local consumers. On the contrary, restricting supplies to remote areas when demand is non-elastic will result in increased average costs and prices for local consumers.

6.2. The acceptance conditions for higher prices for the goods for local consumers in comparison with consumers located in the area remote from the producer.

Higher prices on EWX basis for consumers located in the vicinity of the producer in comparison with consumers located on remote areas can be allowed when the market has the following characteristics:

1. Production is characterized by a high level of fixed costs when the economy of scale can be achieved only at the maximum production output (in comparison with designed production capacities)

2. The output produced by economic entities, achieving economy of scale, exceeds demand on the local market
3. Transportation costs for delivering goods to consumers within the Russian Federation are considerable in comparison with the goods value (over 15-20%) and vary significantly depending on the distance
4. Producers operating in the Russian Federation are located in the areas remote from each other
5. Supplies by producers to the remote areas are inconsiderable in comparison with supplies to the neighbouring regions, but are sustainable
6. The antimonopoly authority has not revealed any facts or elements of violations on the local market by any economic entity under Clauses 4, 5, 9 Part 1 Article 10 of the Federal Law “On Protection of Competition”.

Notes:

1) Price set by an economic entity for local consumers should not exceed the price estimated using the “direct price” method (See Clause 4.1. of the Principles), where the price index (I) is the level of prices on EXW basis, formed in other regions with relatively developed competitive environment.

2) If goods are consumed for further production, then acceptance of different prices must be determined factoring in logistic costs for delivering the end goods (the goods at the subsequent technological process stage) to consumers.

Therefore, the difference in prices for Russian and foreign consumers should not lead to restricting or eliminating competition on the adjacent markets.

**Methods for estimating the economically justified price level**

**Typical market characteristics**

			Price index	Export is comparable with supplies on the domestic market	Import exceeds domestic consumption	Production output in the Russian Federation is comparable with domestic consumption	Transportation costs are insignificant (up to 10-15% of the goods value)
Export-oriented market	Netback minus	$P = I x k - L - C$		<b>Y</b>	x	x	<b>Y</b>
	The method of "average weighted price"	$P = P_1 Q_1 + \dots + P_n Q_n$	<b>X</b>	<b>Y</b>	x	x	<b>Y</b>
Import-oriented market	Netback plus	$P = I x k + L + C$		x	<b>Y</b>	x	<b>Y</b>
Equilibrium market	The "direct price" method	$P = I$ (w/o adjustment for logistic costs)		x	x	<b>y</b>	x

**Examples of exchange and off-exchange indices for determining economically justified level of prices**

**LME**

Category	Ling to data	Types of products
Non-ferrous metal	<a href="http://www.lme.com/metals/non-ferrous/">http://www.lme.com/metals/non-ferrous/</a>	Aluminum Copper Lead Nickel Tin Zinc
Steel billets	<a href="http://www.lme.com/metals/steel-billet/">http://www.lme.com/metals/steel-billet/</a>	<a href="http://www.lme.com/metals/steel-billet/contract-specifications/">http://www.lme.com/metals/steel-billet/contract-specifications/</a>
Minor metals	<a href="http://www.lme.com/metals/minor-metals/">http://www.lme.com/metals/minor-metals/</a>	Cobalt



Molybdenum

## Steel Business Briefing

### SBB prices

#### Metal Products

Type of products	Link to data	Comments	Regions
Flat products	<a href="https://www.steelbb.com/ru/steelprices/flat/">https://www.steelbb.com/ru/steelprices/flat/</a>	<b>Hot-rolled coil</b> Standard market quality, >thickness 2 mm, width >1.1 m	Europe, internal market Europe, import North Europe, internal market South Europe, internal market
		<b>Cold-rolled coil</b> Standard market quality, >thickness 1 mm, width >1.3 m	Turkey, internal market Turkey, export Turkey, import Black Sea, export
		<b>Hot-dip-galvanized coil</b> Standard market quality and weight of coating, >thickness 1mm, width >1.1 m	Russia, Black Sea, export India, internal market China, internal market China, export CIS, export
		<b>Discreet/Quarto/plate-mill</b>	Japan, internal market (Tokyo Steel)

		<p><b>plate</b> Standard market quality, thickness 15-40 mm, width &gt;2050 mm, length &lt;12 m</p>	<p>East Asia, import North America, internal market North America, import USA, internal market USA, import Mexico, internal market Brazil, internal market Brazil, export Argentina internal market Middle East, import FOB, Mid-West, USA</p>
Rolled steel	<p><a href="https://www.steelbb.com/ru/steelprices/lona/">https://www.steelbb.com/ru/steelprices/lona/</a></p>	<p><b>Shapes</b> Standard market quality, China - Broad-flange beam 203-240 mm x 203-240 mm; North America - Broad-flange beam 8-10"</p> <p><b>Fittings</b></p>	<p>North Europe, internal market Europe, internal market Europe, export Europe, import Turkey, domestic prices Turkey, export</p>
		<p>Standard market quality, diameter 1620 mm; North America - 0.75 inch</p> <p><b>Grid rod</b> Standard market quality, thickness 8-12 mm;</p>	<p>Black Sea, export India, internal market China, internal market China export West China</p>

		<p>North America - 0.30.5 inch</p> <p><b>Merchant shapes</b></p> <p>Standard market quality, equal angles 50 x 50 x 6 mm; North America - equal angles 2 x 2 x 0.25 inch</p>	<p>Japan, internal market (Tokyo Steel)</p> <p>East Asia, import</p> <p>Shanghai Futures Exchange</p> <p>North America internal market</p> <p>USA, internal market</p> <p>USA, import</p> <p>Mexico internal market</p> <p>South-East Brazil, internal market</p> <p>Latin America, export</p> <p>Argentina, internal market</p> <p>Middle East, import</p> <p>Middle East, internal market</p> <p>North Africa, internal market</p>
Pipes	<a href="https://www.steelbb.com/ru/7PageID=1738">https://www.steelbb.com/ru/7PageID=1738</a>	Seamless pipes, small-diameter welded pipes	<p>North America, import</p> <p>Turkey, export</p> <p>China, internal market</p> <p>North America, internal market</p> <p>Europe, internal market</p>
Semi-finished products	<a href="https://www.steelbb.com/ru/steelprices/semi-finished/">https://www.steelbb.com/ru/steelprices/semi-finished/</a>	<p><b>Slab</b></p> <p>Standard market quality and size</p> <p><b>Billets</b></p> <p>Standard market quality and size</p>	<p>Turkey, export</p> <p>Turkey, import</p> <p>Black Sea, export</p> <p>India, China internal market,</p> <p>East Asia internal market, import Latin America, export North Africa, import</p>

			London Metal Exchange (LME)
Stainless steel	<a href="https://www.steelbb.com/ru/steelprices/stainless/">https://www.steelbb.com/ru/steelprices/stainless/</a>	<b>Cold-rolled coil -304</b> thickness 2 mm, surface 2V , width 1219 mm	North Europe, internal market North Europe, import South Europe, internal market Europe, internal market
		<b>Cold-rolled coil -202</b> thickness 2 mm, surface 2V, width 1240 mm  <b>Cold-rolled coil -430</b> thickness 2 mm, surface 2V, width 1219 mm  <b>Hot-rolled coil -304</b> thickness 3 mm, surface No.1, width 1535 mm  <b>Rolled products with increased finishing 304</b> diameter 25-80 mm, standard length	London Metal Exchange (LME) (nickel) China, internal market China, import East Asia, import North America, internal market North America, domestic prices North America, import
<b>Scrap metal</b>			
Type of products	Link to data	Comments	Regions
Scrap	<a href="https://www.steelbb.com/ru/steelprices/scrap/">https://www.steelbb.com/ru/steelprices/scrap/</a>	<b>Fragmented scrap</b> Homogenous iron and steel scrap,	Europe, export North America, export

		<p>Magnetic separation enriched, No.1 and No.2 scrap</p> <p><b>HMS 1/2 80:20</b> HMS - 80% No.1, 20% No.2 HMS No.1 – iron and steel scrap, thickness &gt; 6 mm HMS No.2 - iron and steel scrap, thickness &gt; 3 mm Prepared for pressing.</p> <p><b>OA ()</b> thickness predominantly 6 mm, not exceeding 1.5 m x 0.6 m x 0.6 m</p> <p><b>No.1 Bushelling scrap</b> Pure scrap steel (except automobile scrap), not exceeding 12 inch in any direction .</p>	<p>USA, export USA, internal market North Europe, internal market South Europe, internal market Europe, internal market The UK, internal market Rotterdam, export Turkey, import Black Sea, export Purchasing price, Tokyo Steel East Asia, import North Africa, internal market North Africa, internal market Brazil, internal market South-Eastern Brazil, internal market</p>
		<p><b>No.1 Bundle scrap</b> New ferrous scrap, punching or frame scrap, pressed or bundle, weight no less 75 pounds</p>	

		per square foot.	
<b>Raw materials</b>			
Type of products	Link to data	Comments	Regions
Iron ore Coking coal Cast iron Ferroalloys	<a href="https://www.steelbb.com/ru/steelprices/rawmaterials/">https://www.steelbb.com/ru/steelprices/rawmaterials/</a>	<p><b>Iron ore – annual contract</b> High quality BHP Mt. Newman fine ore - Japan / West Australian port FOB \$ cent/t Coarse ore Hamersley - Japan / West Australian port FOB \$ cent/t CVRD standard sinter feed - Europe / Tubarao FOB \$ cent/t CVRD pellets- Европа / Tubarao FOB \$ cent/t</p> <p><b>Iron ores – spot markets</b> Iron ore concentrate 66% Fe raw - Ex-Works (with 13% VAT) Yuan/t Indian iron ore 63% Fe, air-dried metric ton - CFR China \$/t</p> <p><b>Coking coal</b> Ashes 10.5 -12.5% / China FOB \$/t</p> <p><b>Cast iron</b> Standard metallurgical quality</p>	<p>East India, import India, import North China, import North China, internal market London Metal Exchange (LME) (cobalt, molybdenum, tin, zinc) Black Sea, export China, internal market China, import China, export Brazil, internal market Brazil, export Venezuela, export Australia, export East coast, USA, export USA, internal market Japan Europe</p>

### SBB – Price trackers

<https://www.steelbb.com/ru/steelpricetrackers/>

## Platts

Category	Link to data	ts	Comments
Metals Market Data - Metals	<a href="http://russia.platts.com/products/market-data-metals">http://russia.platts.com/products/market-data-metals</a>	ι Coking coal Hot-rolled coil Cold-rolled e Scrap	SBB and TSI data can be used as parts of the Platts Group
Coal Market Data - Coal	<a href="http://www.platts.com/products/market-data-coal">http://www.platts.com/products/market-data-coal</a>	Ferroalloys, etc. Oil and oil products, Netback prices	
Oil Market Data - Oil	<a href="http://russia.platts.com/products/market-data-oil">http://russia.platts.com/products/market-data-oil</a>		
Petrochemical Market Data - Petrochemicals	<a href="http://russia.platts.com/products/market-data-petrochemicals">http://russia.platts.com/products/market-data-petrochemicals</a>		

Olefins (alkenes) - Key products in the Americas, Europe, and Asia)

Polymers - Key polymers such as PE, PP, PVC, PS, ABS

Solvents - Key products including toluene, xylenes)

Intermediates - Assessments for key products in the Americas, Europe, and Asia \_\_\_\_\_



## The Steel Index (part of Platts)

Metal products			
Type of products	Link to data	Comments	Regions
Flat products	<a href="https://www.thesteelindex.com/en/prices-specifications/">https://www.thesteelindex.com/en/prices-specifications/</a>	Hot-rolled coil Hot-deep-galvanized coil Heavy plate Cold-rolled coil (stainless rolled steel)	USA, internal market North Europe, internal market South Europe, internal market Turkey, internal market India, internal market China, export
Rolled steel		Fittings	
Raw materials			
Type of products	Link to data	Comments	Regions
Iron ore	<a href="https://www.thesteelindex.com/en/iron-ore/">https://www.thesteelindex.com/en/iron-ore/</a>	Iron ore fines 62% Fe - CFR Tianjin Port (China) Iron ore fines 58% Fe - CFR Tianjin Port (China) Iron ore fines 62% Fe (low alumina) - CFR Qingdao Port (China) Iron ore fines 63.5/63% Fe - CFR Qingdao Port (China) Iron ore fines 65% Fe - CFR Qingdao Port (China)	China, import
Coking coal	<a href="https://www.thesteelindex.com/en/coking-coal-index/">https://www.thesteelindex.com/en/coking-coal-index/</a>	Premium Hard Coking Coal - FOB East Coast Australian Port Hard Coking Coal - FOB East Coast Australian Port	Australia, export
Scrap metal			
Types of products	Link to data	Comments	Regions
Scrap metal	<a href="https://www.thesteelindex.com/en/scrap-prices/">https://www.thesteelindex.com/en/scrap-prices/</a>	Shredded scrap	Turkey, import
		Heavy scrap (HMS)	India, import Taiwan, import USA

## Metaltorg

<u>Category</u>	<u>Link to data</u>	<u>Type of products</u>	<u>Comments</u>
Non-ferrous metals	<a href="http://www.metaltora.ru/cources/lme_index.php">http://www.metaltora.ru/cources/lme_index.php</a>	Aluminum Copper Lead Nickel Tin Zinc	LME data
World prices for metal products, IORM, cast iron, scrap metal	<a href="http://www.metaltorg.ru/worldprice/main.php">http://www.metaltorg.ru/worldprice/main.php</a>	Ferro-alloys on the markets in the USA, the EU and Asia Ferrous metal scrap on the world and Russian markets Scrap and waste of non-ferrous metals on the EC and USA markets Pig iron on the world and Russian markets Metallurgical and furnace coke on the world and Russian markets Iron ore on the world and Russian markets Non-ferrous and rare metals on the UK and USA markets Ores and concentrates of non-ferrous metals Stainless steel on the world and Russian markets Polymer-coated rolled steel on the world and Russian markets	

## Argus Media

Type of products	Link on a web-site	Comments	Regions
Coal	Argus <a href="http://www.argus.ru/Coal/Coking-Coal-Price-Index">http://www.argus.ru/Coal/Coking-Coal-Price-Index</a> IHS McCloskey <a href="http://www.mccloskeycoal.com/">http://www.mccloskeycoal.com/</a>	Argus / IHS McCloskey Coking Coal Price Index: API C1, API C2, API C8, API C9, API 2, API 4, API 5, API 8 - the average indices of Argus and IHS McCloskey.	Australia, export China, import
Metals	<a href="http://www.metal-pages.com/metalprices/minors">http://www.metal-pages.com/metalprices/minors</a>	Data from Metal-Pages, ArgusGroup, on prices for: <ul style="list-style-type: none"> <li>- rare-earth metals</li> <li>- non-ferrous metals</li> <li>- precious metals</li> <li>- ferroalloys.</li> </ul>	