



# *Trade, sanctions, and economic issues in EU- Russian Relations*

Presented by

**Crina Viju**

Carleton University

Presentation prepared for the Jean Monnet Chair EUREAST Workshop: “The European Union and Russia: Where Now?”, January 18, 2018, Carleton University

- “...the interdependence is real and enduring.” (Haukkala, 2017, pp. 65)
- “...building peace through economic interdependence.” (DeBardeleben, 2017, pp. 119)
- “Contrasting visions and perceptions and clashing interests ...but economic ties have also been wielded by both sides to influence, even sanction, each other’s behaviour” (Haukkala, 2017, pp. 61)

# Outline

- Trade and investment relations
- Energy relations
- Institutionalization of economic relationship
- Sanctions: main impacts
- Assessment of current economic relation
- Where now?

# Top trading partners, 2016 (goods)

## European Union

### Total trade

Partner	Value Mio €	% Extra-EU
World	3,456,952	100.0
1 USA	613,975	17.8
2 China	514,597	14.9
3 Switzerland	263,855	7.6
4 Russia	191,185	5.5
5 Turkey	144,653	4.2
6 Japan	124,636	3.6
7 Norway	111,626	3.2
8 South Korea	85,743	2.5
9 India	77,054	2.2
10 Canada	64,343	1.9

4 Russia	191,185	5.5
----------	---------	-----

3 Russia 8% in 2014

## Russia

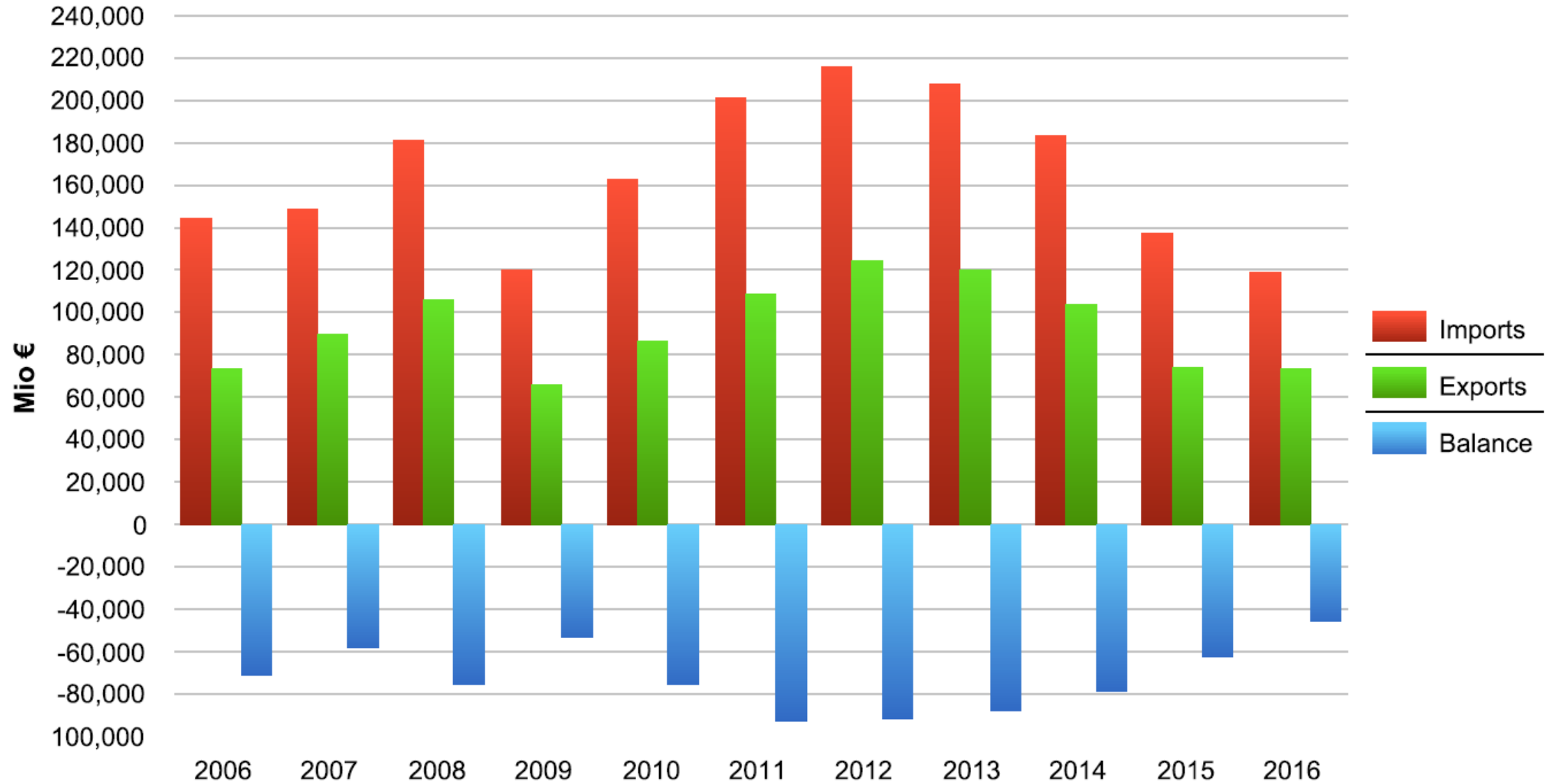
### Total trade

Partner	Value Mio €	% World
World	422,623	100.0
1 EU 28	180,854	42.8
2 China	59,732	14.1
3 Belarus	21,315	5.0
4 USA	18,534	4.4
5 Japan	14,510	3.4
6 Turkey	14,300	3.4
7 South Korea	13,682	3.2
8 Kazakhstan	11,815	2.8
9 Ukraine	9,145	2.2
10 India	6,965	1.6

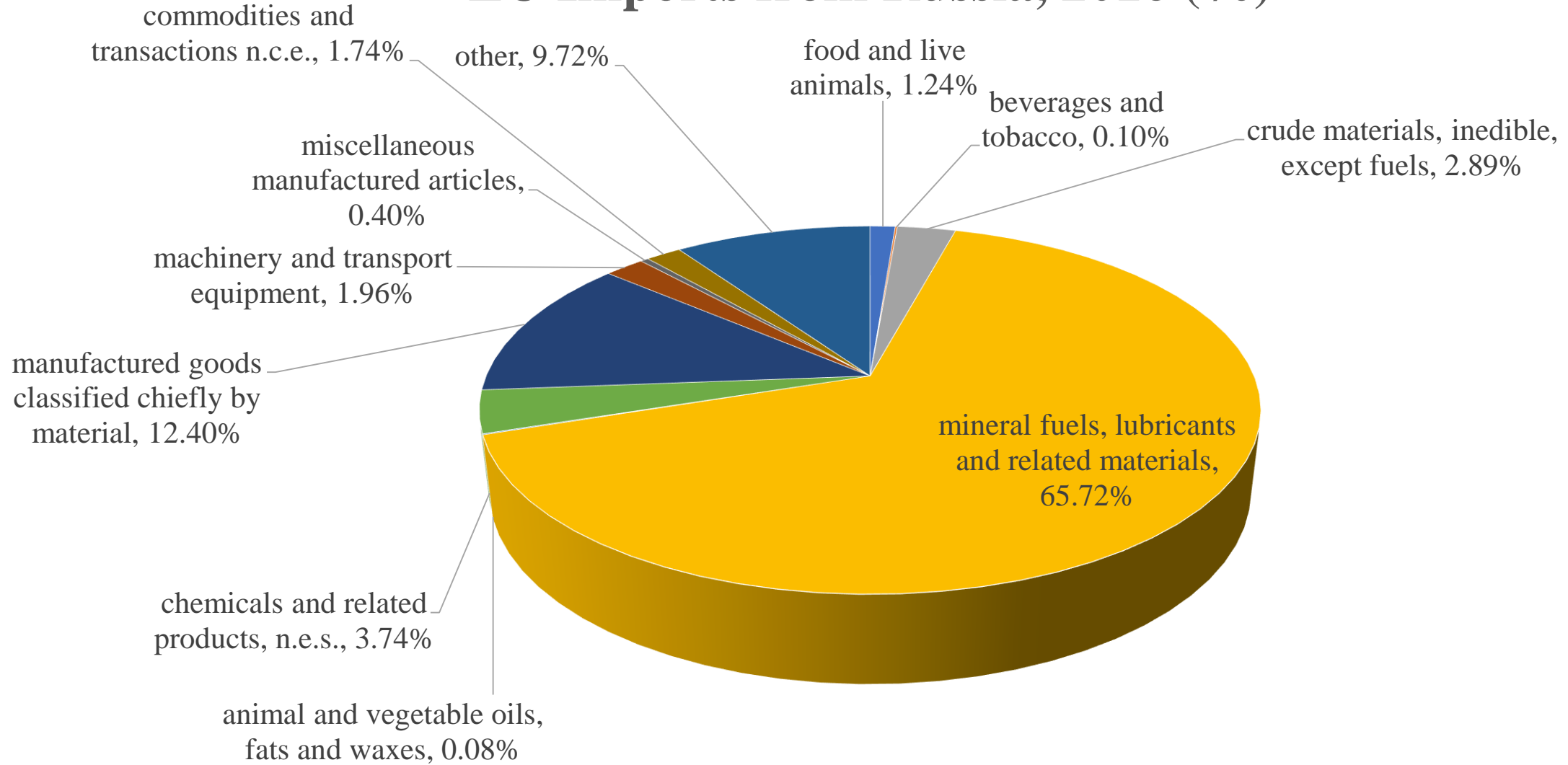
1 EU 28	180,854	42.8
---------	---------	------

1 EU28 ~50% in 2014

# EU trade with Russia

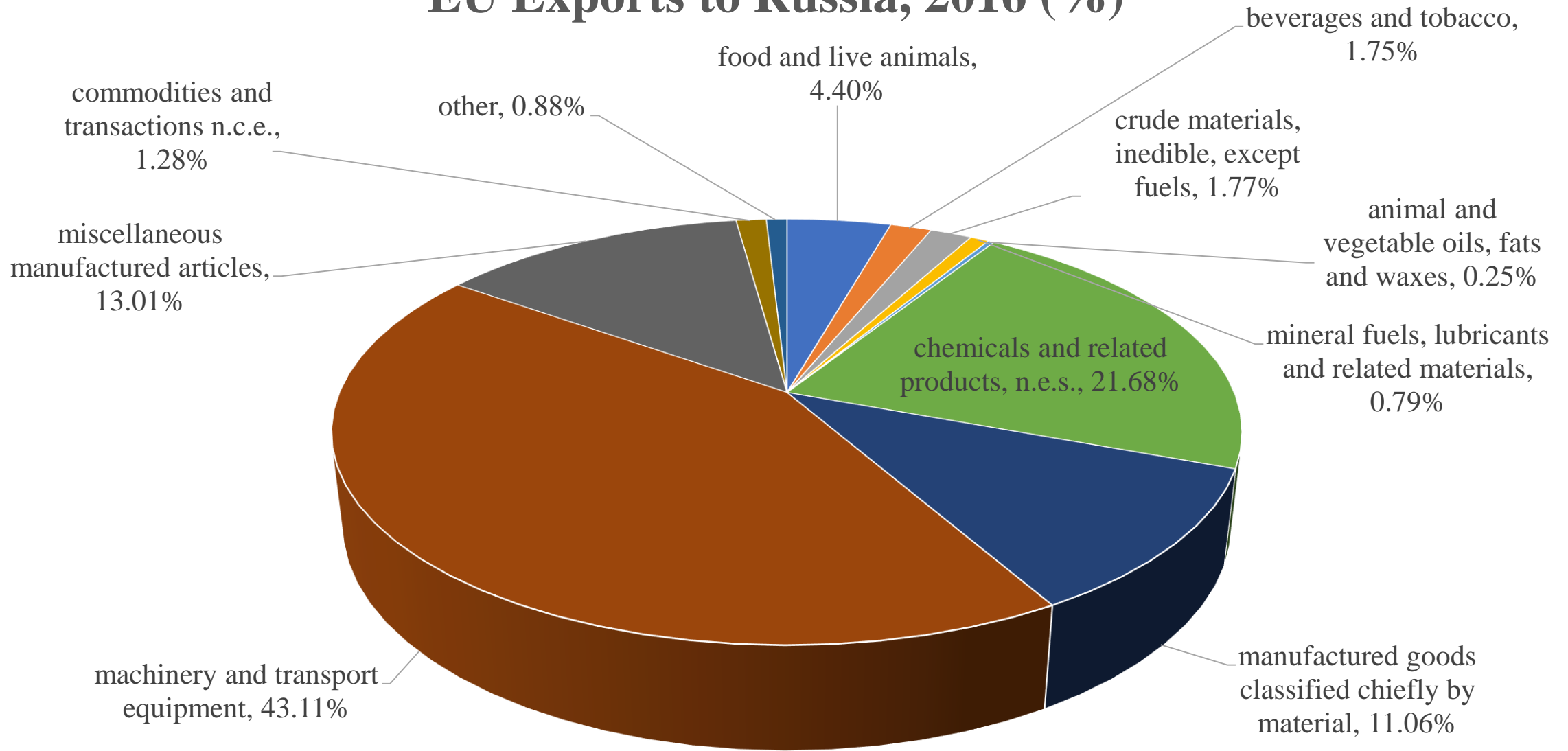


# EU Imports from Russia, 2016 (%)



European Commission, 2017

# EU Exports to Russia, 2016 (%)



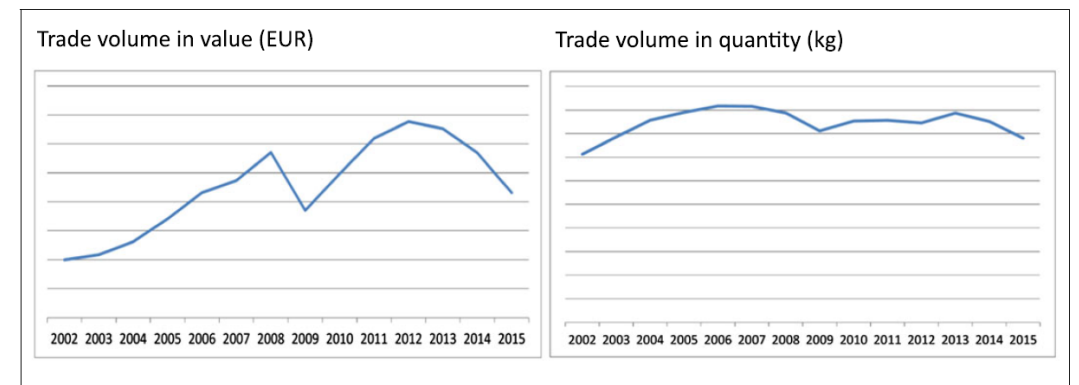
# EU-Russia trade

## **An important relationship but asymmetrical; complementary and mutually beneficial**

- The EU accounted for ~ 43% of Russia's overall trade turnover (2016). In contrast, Russia accounted only for ~ 6% of extra-EU's trade turnover (2016).
- Imports (in goods) from Russia are about 3/4 (~66%) energy and mineral fuel; exports to Russia are ~ 85% manufactured goods.

## **Downward trade trend, but still very important: certain sectors more affected than others**

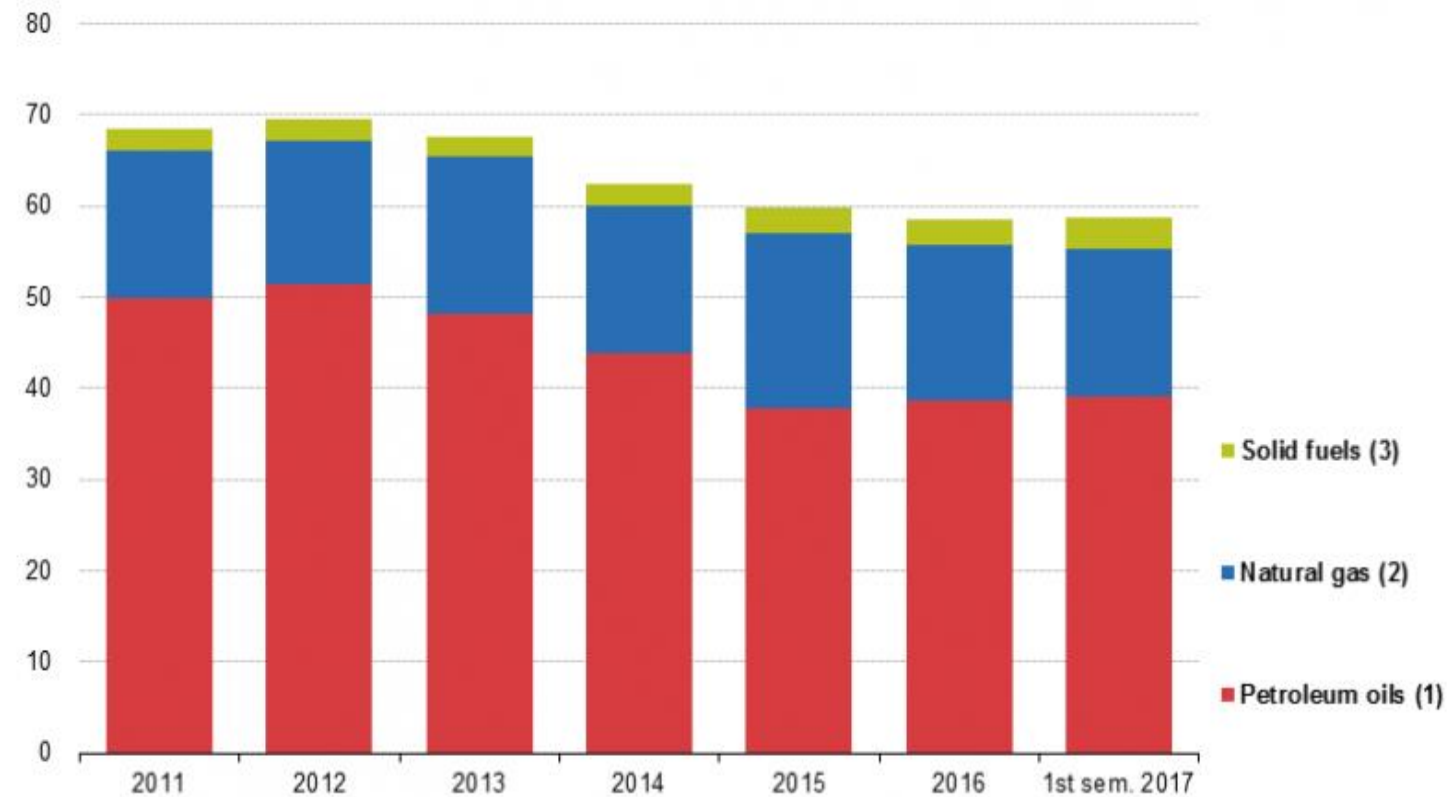
- Decline in exports to Russia in some sectors 2014 to 2016 (based on value of trade)
  - Food and live animals - 50%
  - Beverages and tobacco - 20%
  - Chemicals -18%
  - Manufactured goods – 28%
  - Machinery -34%
- Decline in imports from Russia 2014 to 2016
  - Fuels - 43%
  - Chemicals - 30%



Source: Giumelli (2017)



# Share (%) of energy products in total EU-28 imports from Russia



(1) Product codes: 27090010 and 27090090

(2) Product codes: 27111100 and 27112100

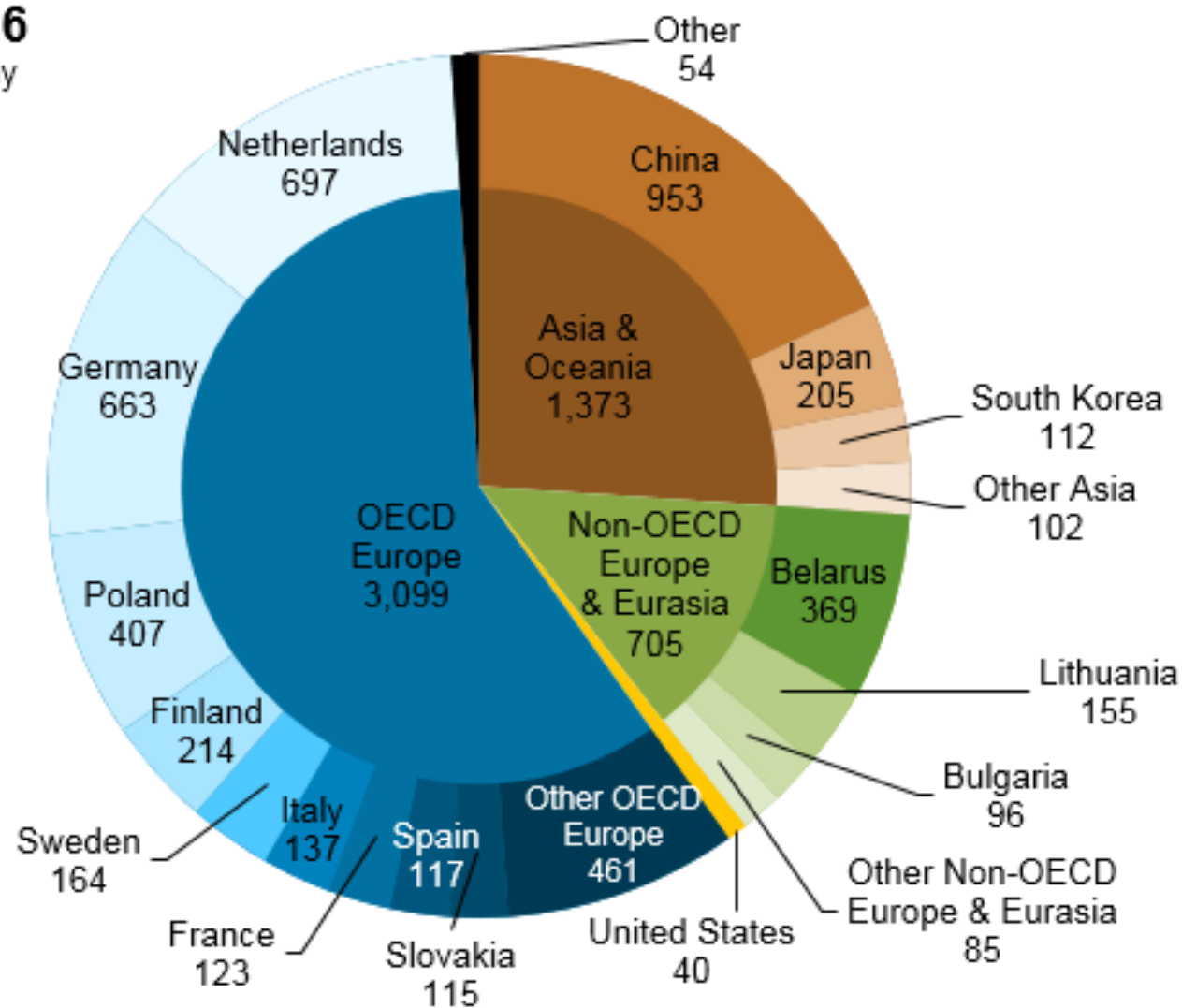
(3) Product codes: 2701, 2702, 2703, 2704

<b>Imported from</b>	<b>Crude oil (% extra-EU)</b>					<b>Natural gas (% extra-EU)</b>				
	<b>2004</b>	<b>2009</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2004</b>	<b>2009</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Russia</b>	32.5	33.6	33.7	30.4	29	43.6	33.1	41.2	37.5	32.6
<b>Norway</b>	18.7	15.1	11.8	13.1	12	24.3	29.4	30	31.6	32.5
<b>Algeria</b>	3.3	1.6	3.9	4.2	4.3	17.9	14.3	12.8	12.3	11.2
<b>Nigeria</b>	2.6	4.5	8.1	9.1	8.4	3.6	2.4	1.8	1.5	1.9
<b>Saudi Arabia</b>	11.3	5.7	8.7	8.9	7.9					
<b>Kazakhstan</b>	3.3	5.3	5.7	6.4	6.4					

Source: Eurostat, 2017

**Figure 3. Russia's crude oil and condensate exports by destination, 2016**

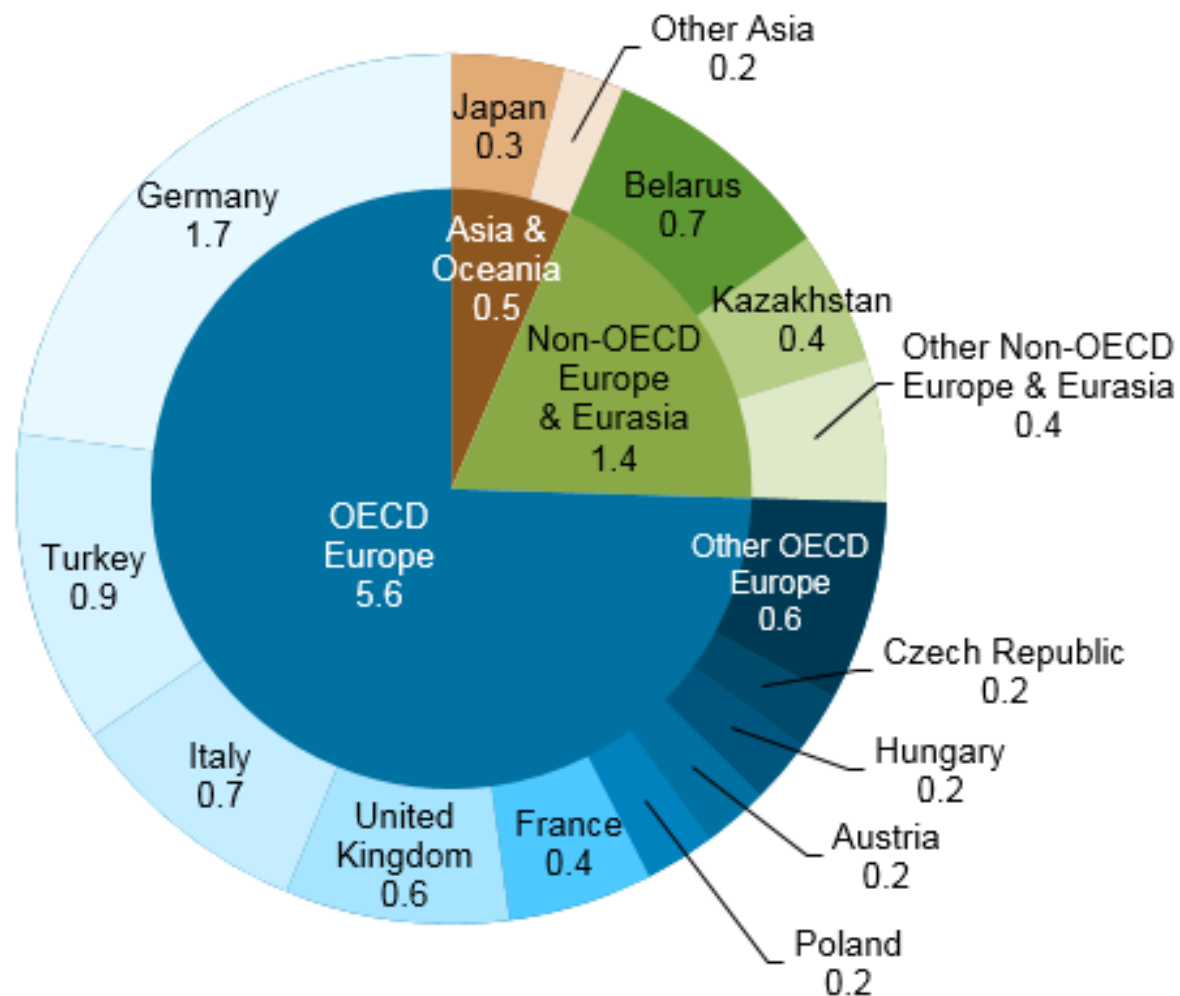
thousand barrels per day



Source: U.S. Energy Information Administration based on Russian export statistics and partner country import statistics, Global Trade Tracker

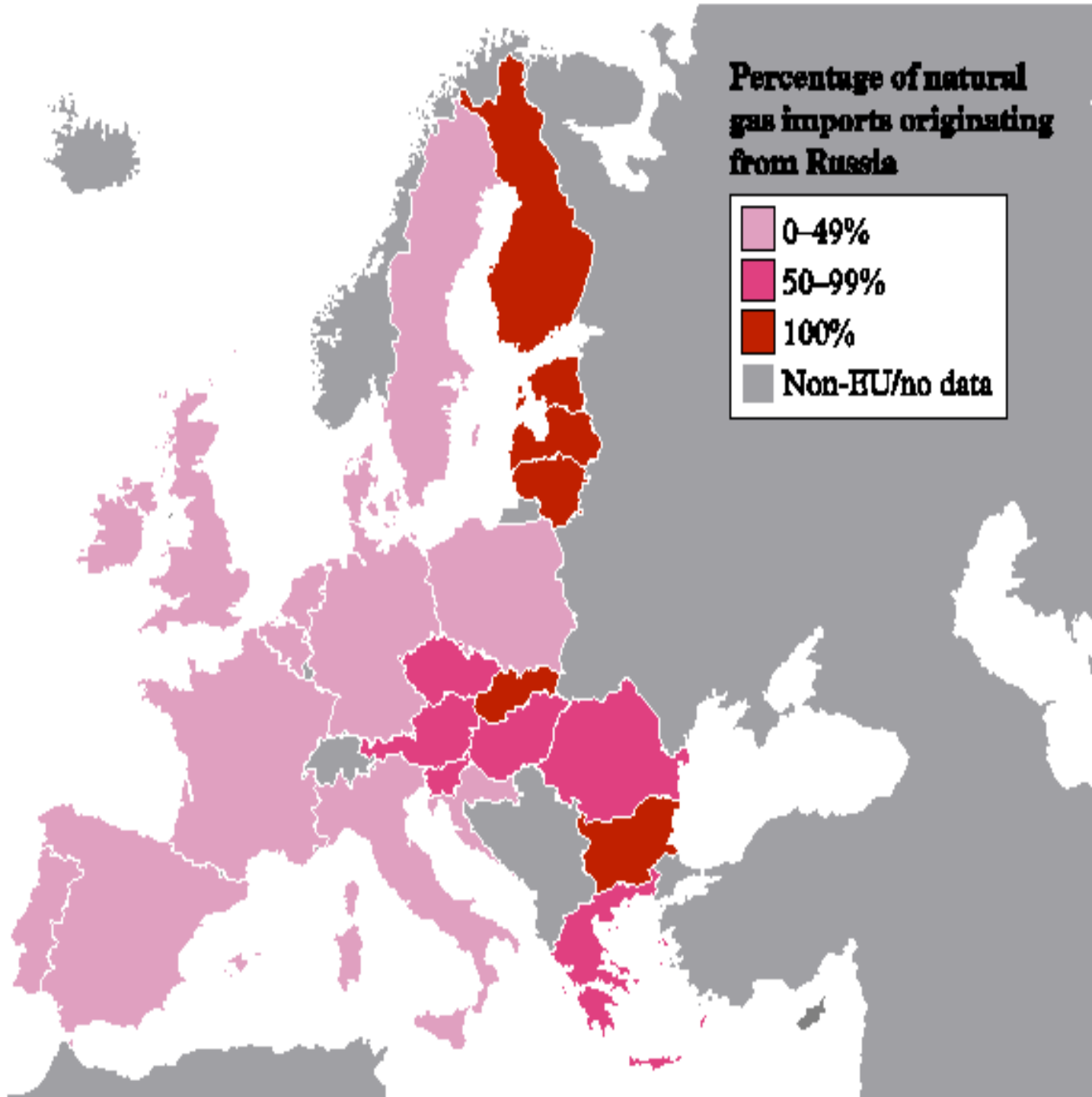
**Figure 7. Russia's natural gas exports by destination, 2016**

Trillion cubic feet



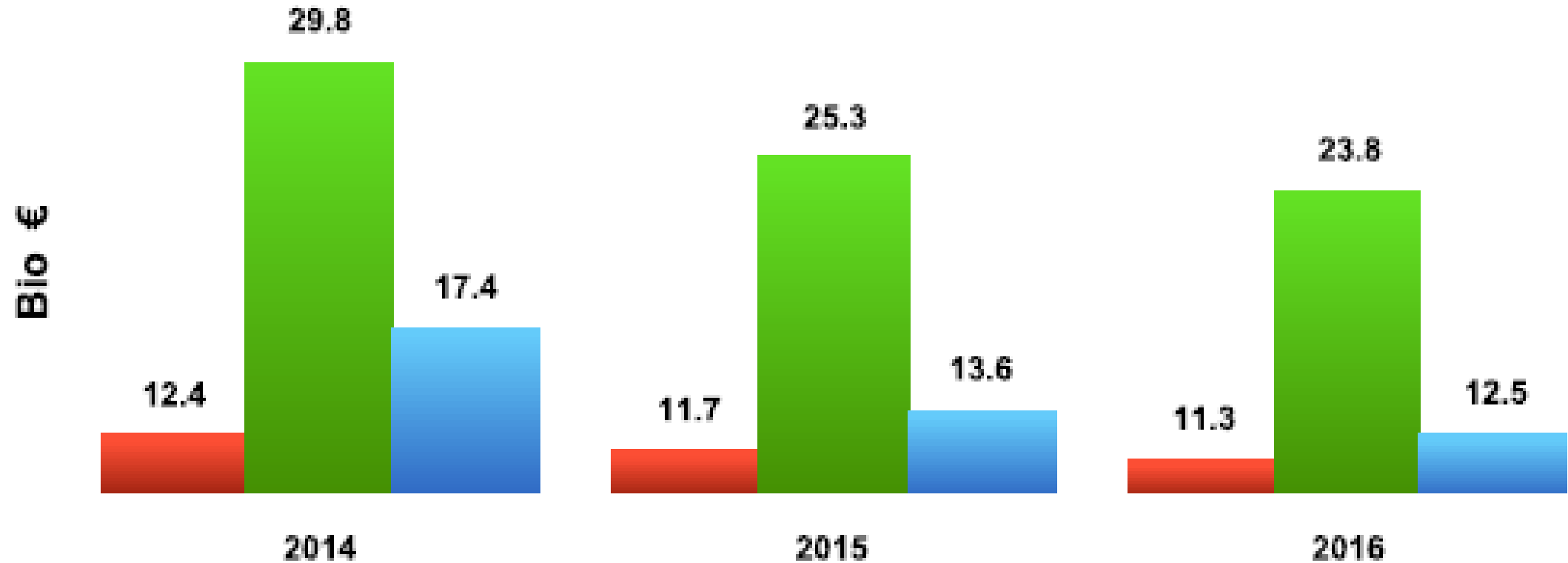
Source: U.S. Energy Information Administration, based on Russian export statistics and partner country import statistics, Global Trade Tracker

# Europe's dependence on Russian gas



Source: UK Parliament, 2015

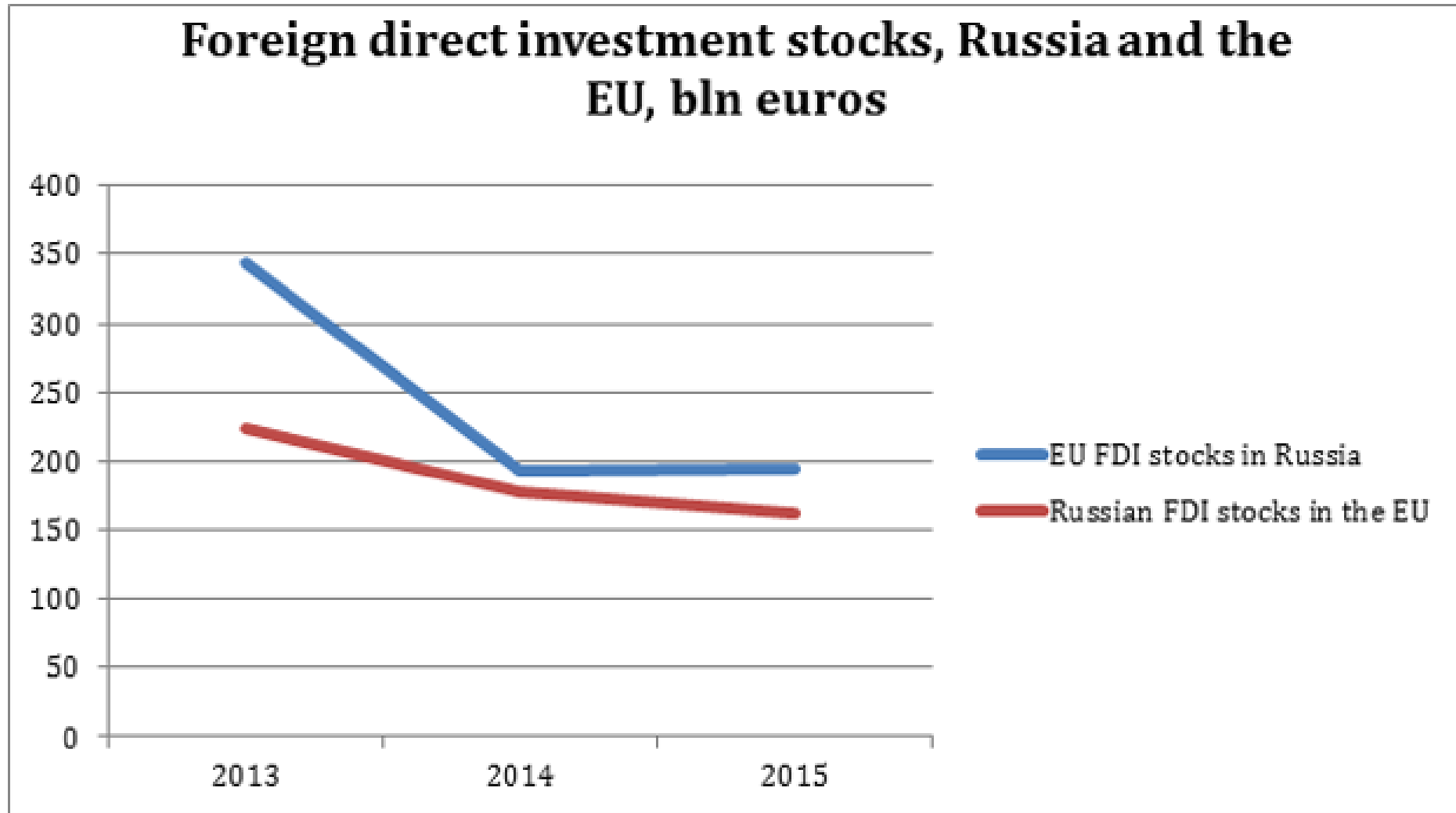
# EU-Russia: trade in Services



# Foreign Direct Investment (FDI)

- ▶ EU accounts for ~75% of FDI stocks in Russia
- ▶ 68% of Russian FDI stocks in EU: represents less than 1% of all FDI from outside the EU
- ▶ Main EU investors in Russia: Italy, Sweden, Germany, Luxembourg in 2014 (Eurostat)

# EU-Russia: Foreign Direct Investment



Source: Russian Central Bank



# Toward an EU-Russian Strategic Partnership? 1997-2014

- **Partnership and Cooperation Agreement (PCA 1997, new agreement being negotiated until 2014)**
  - Similar to European Agreements with CEECs, but no membership possibility
    - Democratizing Russia, turning it into a State of Law, integrating Russia into EU economic sphere, harmonization of laws, rules and regulations with the *aquis*; framework for technical and financial assistance and cooperation
  - **Main focus:** to “create a new climate for economic relations” and to develop trade and investment necessary for Russia’s “economic re-structuring and technological modernization” (PCA 1997, preamble)
    - EU states its support for Russia’s accession to WTO
    - Reciprocal Most Favoured Nation (MFN) market access for trade in goods; special provisions in services, businesses and investment, cooperation on competition and IPRs.

# Toward an EU-Russian Strategic Partnership?

- **Four Common Spaces** (Economic; Freedom, Security, and Justice; External Security; Research and Education) (St. Petersburg, 2003)
  - EU granted Russia the Market Economy Status
- **Roadmaps** (2005) to build the common spaces
- **Partnership for Modernization** (2010)
  - To accelerate Russia's economic recovery
  - “domestic financial and technological capabilities” are not sufficient and Russia needs “money and technology from Europe” (Medvedev, 2009)

# Russia and WTO

- **Russia joining WTO (2012)**
- **Problems with implementation of WTO measures**
  - EU opened trade disputes against Russia: sanitary and phytosanitary issues (SPS); tariff treatment of certain agricultural and manufacturing products; recycling fees on motor vehicles (4 cases in 2013-2014)
  - Russia opened trade disputes against the EU: calculation of dumping margins, energy sector, anti-dumping for steel products (4 cases in 2013-2017)

# EU-Russian Energy Relations

- Dependence or interdependence? Complementary needs and strengths
  - EU seeks security of supply
  - Russia seeks security of demand
  - Geographical proximity
- Disagreements over market access
  - Energy Charter Treaty: legally binding multilateral framework proposed by the EU to regulate relations with Russia
  - Russia never ratified it
  - Russian state role in energy firms: renationalization of strategic industries in mid-2000s
  - EU Internal Energy Market: liberalization and competition
  - The EU's Third energy package (2009) restricted Russian access to EU markets through unbundling and reciprocity.
- EU seeks to diversify its supply sources
- Russian seeks to diversify its markets

# EU Sanctions on Russia (2014- )

- **Diplomatic measures**
  - suspension of meetings
- **Individual restrictive measures**
  - asset freeze and travel restrictions
    - 151 people and 33 entities
  - asset freeze for misappropriation Ukrainian state funds
- **Restrictive measures**
  - import ban on goods from Crimea and Sevastopol
  - ban on investments
  - prohibition to supply tourism services in Crimea
- **Economic sanctions (specific Russian sectors)**
  - limitation of access to EU primary and secondary capital markets for 5 major Russian majority state owned financial institutions
  - export and import ban on trade in arms
  - export ban for dual-use goods
  - access to certain sensitive technologies and services
- **Economic cooperation**
  - suspension signature new financing operations
  - EU coordination suspension financial operations European Bank for Reconstruction and Development (EBRD)
  - reassessment and suspension EU bilateral and regional cooperation programmes with Russia

# **Retaliation Measures Russian Federation (EU, USA, Norway, Canada and Australia)**

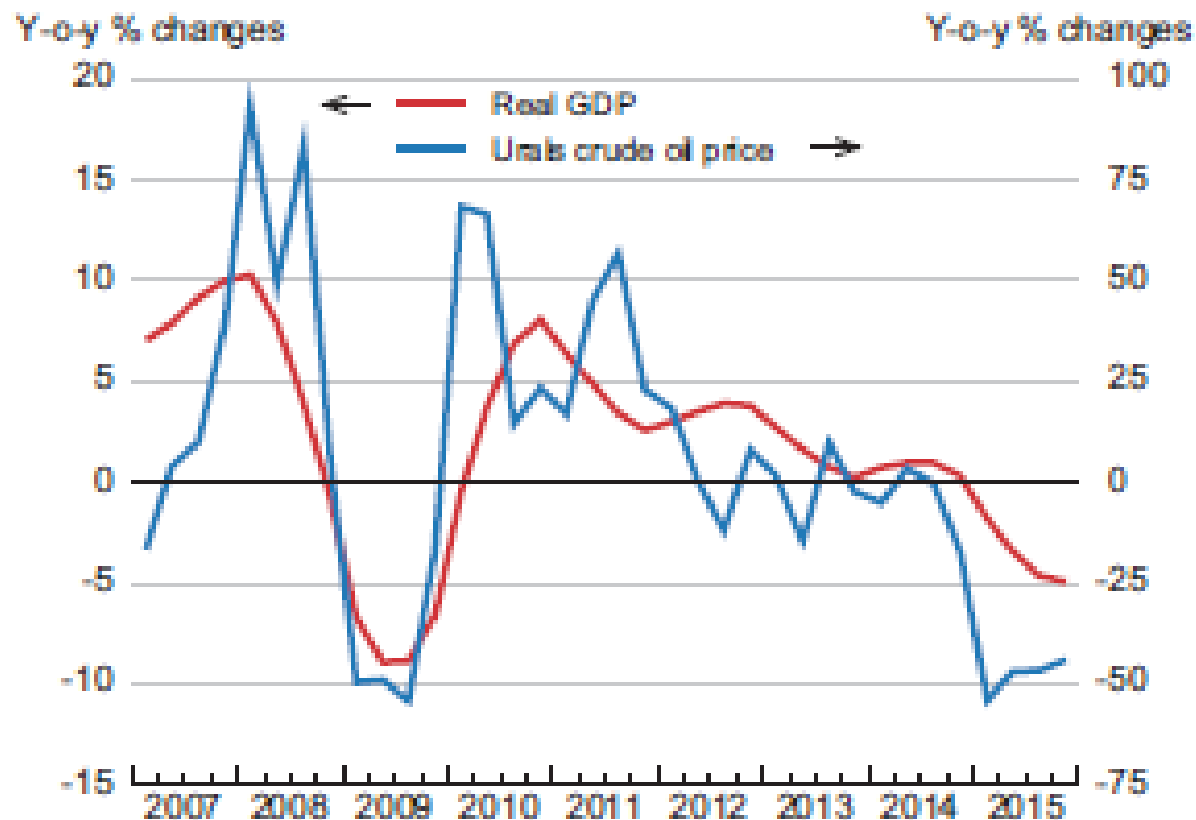
- Agriculture and food products (meat, fish, fruits, vegetables and dairy products)
  - restrictions on import

# Impacts of sanctions on Russian economy

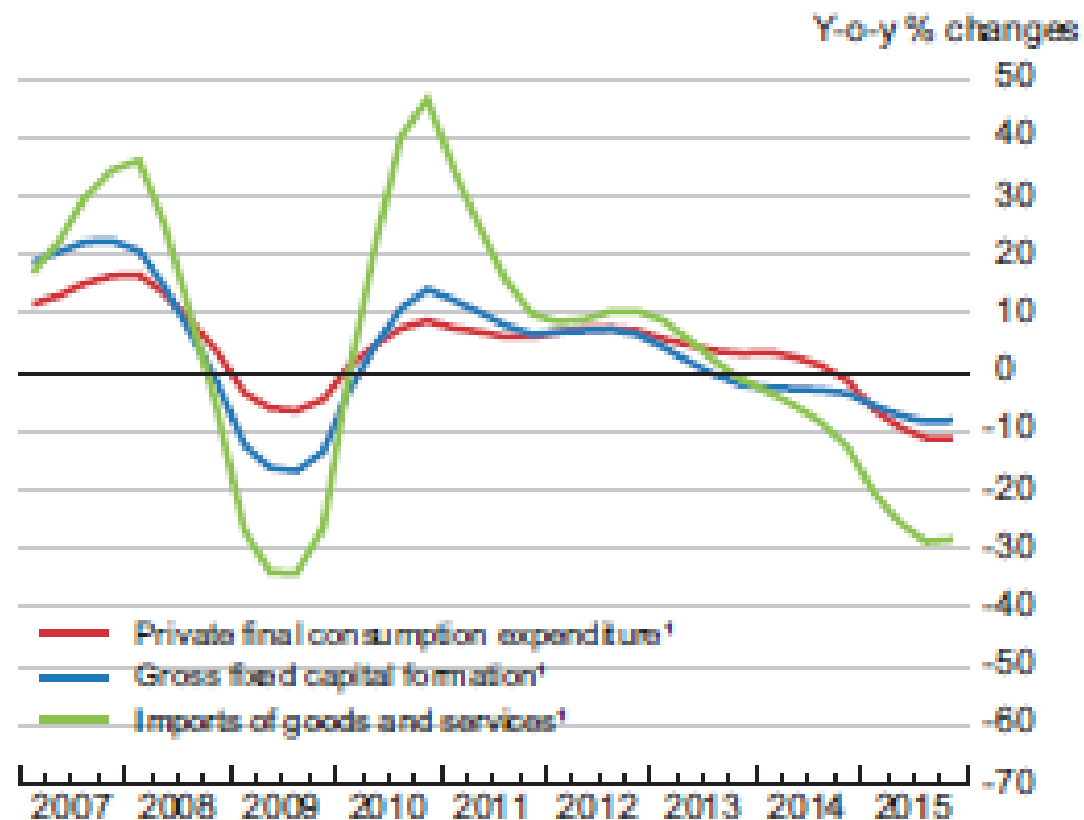
- Not primary but complementary in explaining the decline of Russian economy (contributing by 1.5-2% GDP decline according to various estimates)
  - Structural problems;
  - Dramatic devaluation of the ruble (by 50% in 2014);
  - Major decline in oil prices (from US\$ 110 in 2012 to US\$ 41 in 2016)
- Possible important future consequences:
  - Restricted W. technologies for deep off-shore and fracking operations
  - Capital flight, restricted access to W. capital and increased risk of investment
  - Import substitution (agriculture)
  - Trade diversification

# Russia

## Oil price weakness weighs on the economy




## Domestic demand has collapsed



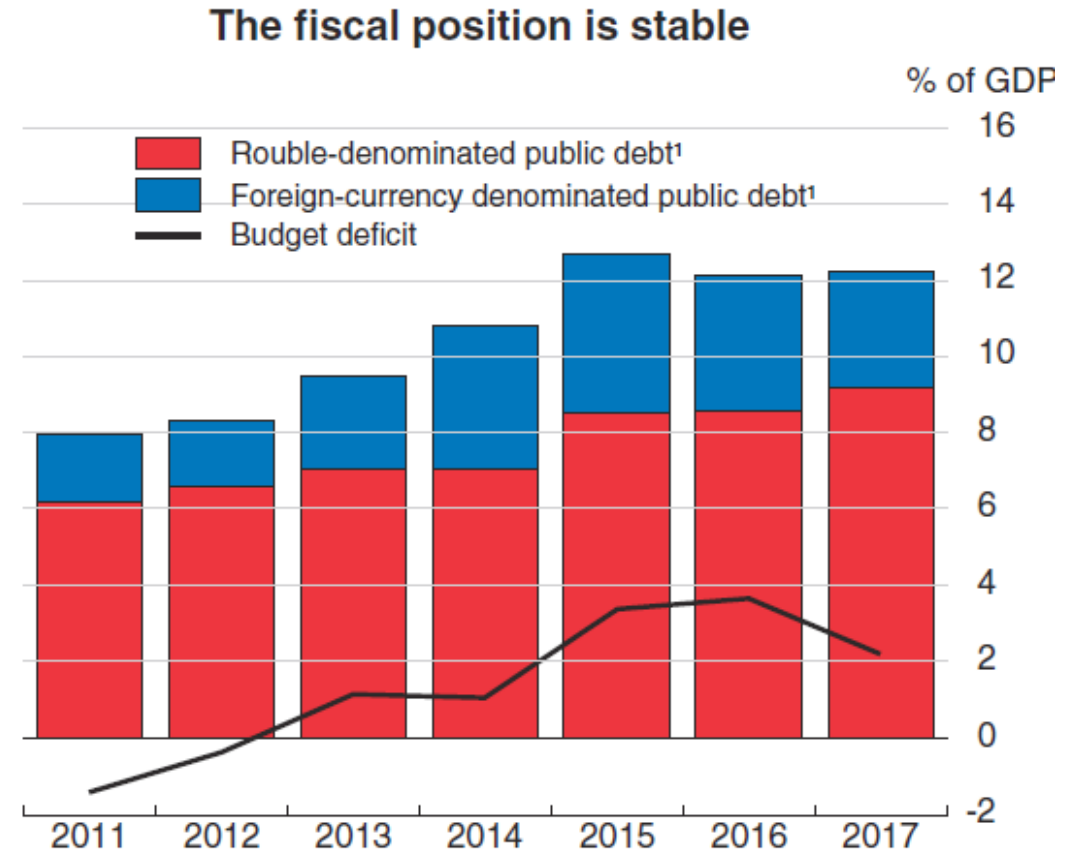
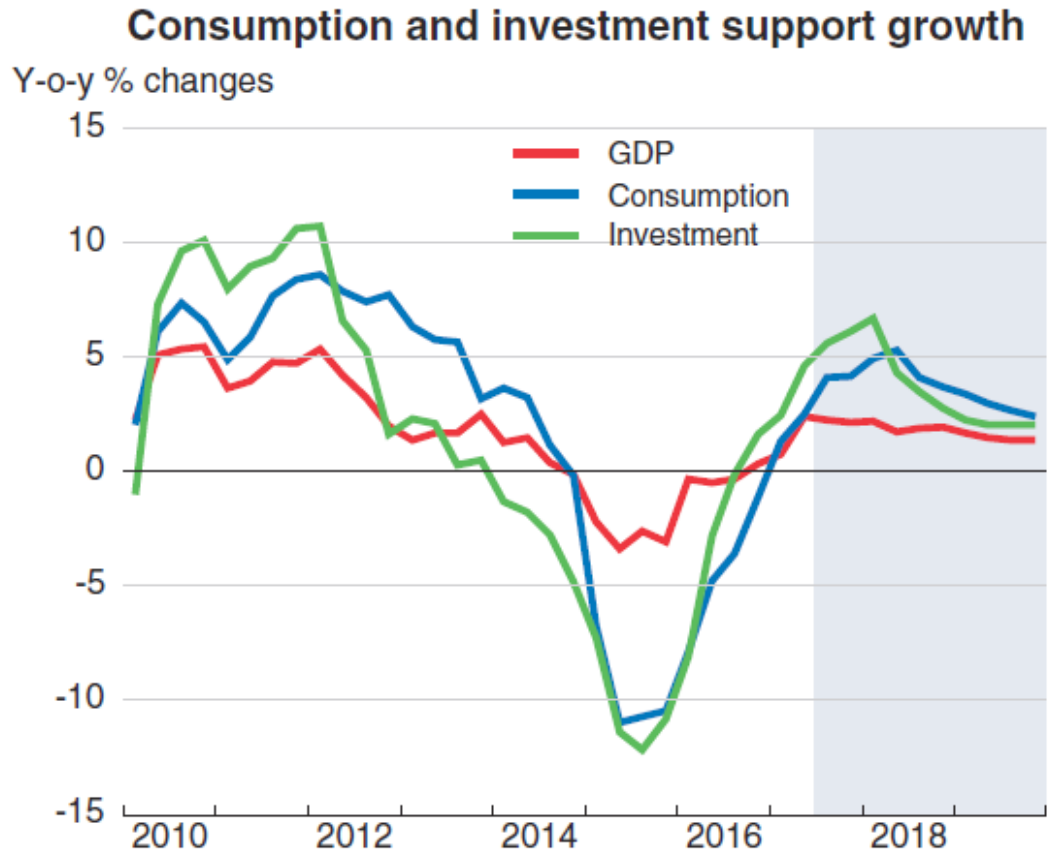
1. In volume.

Source: OECD Economic Outlook 99 database; and Thomson Reuters.

StatLink  <http://dx.doi.org/10.1787/888933368061>



# Russia



Source: OECD Economic Outlook, 2017

# Toward an EU-Russian Strategic Partnership? Assessment

- A strategic partnership without a strategy
  - The EU unable to bring economic reform in Russia
    - weak transformative power with Russia
  - Russia increasingly unwilling to accept EU leadership

## **Different understandings of an economic integrated Europe:**

- EU understanding of an integrated European economic space:
  - Liberalized trade and investment with regulatory convergence (std. established by the EU)
- “Common economic space from Vladivostok to Lisbon” (President Putin, 2010) based on certain principles (DeBardeleben, 2017 and Haukkala, 2017)
  - National sovereignty: any acceptance of EU standards must be based on Russian choice;
  - Russia as an equal partner to the EU in shaping post-Cold War European order

# Conclusion

- Beneficial and complementary economic relationship:
  - Based on different interests, contrasting approaches, thus fragile.
- Mostly shared economic interests: Level of trade; Investment; Energy interdependence
- Mostly conflictual economic interests: Terms of trade/investment; Market access; Terms of energy relations
- **Where now? 2 possibilities:**
  - Major decline in economic interdependence: what type of relationship?
  - Continued and increased economic interdependence: a future discussion and possible trade agreement between the EU and the Eurasian Economic Union (EEU) (Viju)
    - Economic, political and security relations treated separately; possibility of spillovers.