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

Presented by
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• “...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

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

## Russia

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

3 Russia

8% in 2014

1 EU28

~50% in 2014
EU trade with Russia

European Commission, 2017
European Commission, 2017
food and live animals, 4.40%
beverages and tobacco, 1.75%
crude materials, inedible, except fuels, 1.77%
mineral fuels, lubricants and related materials, 0.79%
animal and vegetable oils, fats and waxes, 0.25%
chemicals and related products, n.e.s., 21.68%
manufactured goods classified chiefly by material, 11.06%
machinery and transport equipment, 43.11%
commodities and transactions n.c.e., 1.28%
miscellaneous manufactured articles, 13.01%
other, 0.88%
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

Eurostat, 2017
<table>
<thead>
<tr>
<th>Imported from</th>
<th>Crude oil (% extra-EU)</th>
<th>Natural gas (% extra-EU)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>32.5</td>
<td>33.6</td>
</tr>
<tr>
<td>Norway</td>
<td>18.7</td>
<td>15.1</td>
</tr>
<tr>
<td>Algeria</td>
<td>3.3</td>
<td>1.6</td>
</tr>
<tr>
<td>Nigeria</td>
<td>2.6</td>
<td>4.5</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>11.3</td>
<td>5.7</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>3.3</td>
<td>5.3</td>
</tr>
</tbody>
</table>

Source: Eurostat, 2017
Figure 3. Russia’s crude oil and condensate exports by destination, 2016

thousand barrels per day

- OECD Europe: 3,099
- Asia & Oceania: 1,373
- China: 953
- Japan: 205
- South Korea: 112
- Other Asia: 102
- OECD Europe & Eurasia: 705
- Non-OECD Europe & Eurasia: 461
- Belarus: 369
- Lithuania: 155
- Bulgaria: 96
- Other Non-OECD Europe & Eurasia: 85
- United States: 40
- Other: 54
- Netherlands: 697
- Germany: 663
- Poland: 407
- Finland: 214
- Sweden: 164
- France: 123
- Slovakia: 115

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

OECD Europe 5.6
- United Kingdom 0.6
- France 0.4
- Other OECD Europe 0.6
- Italy 0.7
- Turkey 0.9

Non-OECD Europe & Eurasia 1.4
- Kazakhstan 0.4
- Other Non-OECD Europe & Eurasia 0.4

Asia & Oceania 0.5
- Japan 0.3

Belarus 0.7

Other Asia 0.2

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

European Commission, 2017
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

Foreign direct investment stocks, Russia and the EU, bln euros

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 rubble (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.
Russia

Consumption and investment support growth

Y-o-y % changes

GDP
Consumption
Investment

The fiscal position is stable

% of GDP

Rouble-denominated public debt
Foreign-currency denominated public debt
Budget deficit

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.