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Trade And Economic Relations Between Russia And The EU: Current State And Development Prospects

Master's thesis in Economics, specialty of Financial Economics,
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Abstract

In this research, we analyze trade and economic relations between Russia and the European Union (EU). We consider historical aspects and development of strategic foundations of interaction. The sanction's policy, which is conducted by the countries of the European Union and Russia's response, has significantly influenced the reduction of business activity both in political and economic spheres. There were significant fluctuations in the volume and dynamics of foreign trade turnover, as well as changes in investment policy. The current geopolitical situation impedes the effective development of mutual economic cooperation. This study of economic relations between Russia and the European Union starts from 1994, when The Partnership and Cooperation Agreement (PCA) was signed, and to the present day. We made a detailed comparison of the trade and economic situation before and after the introduction of bilateral economic sanctions, analyzed the structure of exports and imports of Russia and the EU for 2009-2019. We also analyzed the dynamics of foreign trade between Russia and the EU. The impact of sanctions on the main export goods of Russia and the EU, which were subject to restrictions, was also considered: for Russia it is oil, for the EU it is agri-food. The financial losses of Russia and the EU caused by the introduction of the sanctions regime and food embargo have shown that the economies of the countries are significantly dependent on each other. In conclusion, we assessed the prospects for further development of trade and economic relations between Russia and the EU countries.

Keywords: International economic relations, Russia, the EU, Sanctions.

Resumo

Nesta investigação, analisamos as relações comerciais e económicas entre a Rússia e a União Europeia (UE). Analisamos aspetos históricos o desenvolvimento de bases estratégicas de interação económica e política. A política sancionatória, conduzida pelos países da União Europeia e a resposta da Rússia, influenciou significativamente a redução da atividade empresarial, tanto na esfera política como económica. Houve flutuações significativas no volume e na dinâmica do comércio externo, bem como mudanças na política de investimento. A atual situação geopolítica impede o desenvolvimento efetivo da cooperação económica. Este estudo das relações económicas entre a Rússia e a União Europeia começa em 1994, quando foi assinado o Acordo de Parceria e Cooperação (APC), prolongando-se até ao momento atual. Fazemos uma comparação detalhada da situação comercial e económica antes e depois da introdução de sanções económicas bilaterais e analisamos a estrutura das exportações e importações entre a Rússia e a UE no período 2009-2019. Analisamos também a dinâmica do comércio internacional entre a Rússia e a UE. Analisamos também o impacto das sanções nas exportações dos principais produtos, que estavam sujeitos a restrições: no petróleo, no caso da Rússia e para os produtos agroalimentares, no caso da UE. As perdas financeiras da Rússia e da UE causadas pela introdução do regime de sanções e pelo embargo alimentar mostraram que as economias dos países são significativamente dependentes umas das outras. Em conclusão, avaliamos as perspetivas de desenvolvimento futuro das relações comerciais e económicas entre a Rússia e os países da UE.

Palavras Chave: Relações económicas internacionais, Rússia, UE, Sanções

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Introduction

In this research, the economic relations between Russia and the countries of the European Union (the EU) was analyzed since trade cooperation between these countries is of great importance for the successful interaction of the two sides. For a long time, they have been partners in trade, research, internal and external security, and investment. The share of the EU countries in Russia's foreign trade has remained significant for many years. The EU countries are actively investing in Russia, being one of the largest investors for the Russian national economy.

The topicality of this research is to analyze the trade and economic relations between the EU and Russia, as this issue is currently quite acute. This is largely due to the economic sanctions, which, according to some researchers on this issue, crossed out the previously achieved trade volumes, as well as Russia's recent attempt to exit the OPEC+, which has led the EU and other countries to react negatively.

The purpose of the master thesis was to conduct a research to assess the development of economic relations between Russia and the EU, within the referred framework.

We have found out the state of trade relations between the EU and Russia, which hinders Russia and the EU for a successful trade and economic relations. We have assessed the potential economic consequences for the production and trade of oil and petroleum products in Russia because of imposition of sanctions and evaluated an impact of the Russian embargo on agri-food trade between Russia and the EU. At the end of this research, we described what are the prospects for the development of relations between them.

To solve the set tasks, there is a set of research methods, which were used. Firstly, theoretical (historical, classification method) to contextualize the origins and development of trade and economic relations between Russia and the EU, as well as to systematize a significant amount of information. And secondly, general logic (Synthesis, Analysis, Analogy, Induction)-for a more detailed study of trade and economic relations between Russia and the EU, analysis of strengths and weaknesses and determining development prospects.

In order to proceed to these methods, we first collected enough information on the way the relationship between Russia and the EU has historically developed.

1. Economic relations between Russia and the EU

1.1. The establishment of economic relations between Russia and the EU

The foreign trade dynamics of Russia and the EU can be divided into two periods: before 2013, when foreign trade had a positive dynamics of development and after 2013 when the indicators (export, import, growth rate) began to deteriorate significantly (European Commission, 2020). The sharp decline in trade is due to several reasons:

- the tense international political situation (European Parliament, 2019);
- the introduction of EU trade restrictions and the response of Russia (Kadar, 2020).

The beginning of the first period can be considered in 1994 when The Partnership and Cooperation Agreement (PCA), which was signed and became the main core for determining the development of further relations between the EU and Russia. The most important task in this document was the development of trade and investment between the EU and Russia (Kadar, 2020). Although, it was only in 1997 when the PCA came into force, but after that, the agreement has laid a stable legal foundation for the complex development of the dialogue between EU-Russia in different fields. The PCA created the basis for the formation of close economic relations, including the opportunity of creating a free trade zone established multi-level collaboration and set the framework for a political EU-Russia dialogue.

Also, in those years according to Sumarokov and Marganiya (2017) the commodity structure of Russia's trade with the EU was determined by the international division of labor. This refers to the specialization of countries in the production of certain types of goods for which the country has the resources, cheaper factors of production and preferred conditions in comparison with other countries. The book "Introduction to international economics" (Salvatore, 2012) describes that a nation can specialize in the production of the commodity of its absolute advantage and exchanging part of its output with the other nation for the commodity of its absolute disadvantage for more efficient using resources and increasing production. So being rich in natural resources, from that time to the present day Russia exports crude oil, natural gas, metals, metal ores, other minerals, and unprocessed wood to the EU. The share of these goods in exports is placed in order from higher to lower. The EU, with its developed machine-building, chemical, and other industries with a high level of added value, exports to Russia transport, industrial and other equipment, office equipment, chemical products, consumer goods, and processed food.

According to Linkevich and Makarova (2019) in the following decade, actions were actively carried out to stimulate the inflow of investment from the EU to the Russian economy. Attempts were made to eliminate residual discrimination in trade and open the European market to Russian exports. Between 1999 and 2003, economic ties were strengthened. Overall, the volume of foreign direct investment (FDI) from the EU to Russia increased from 2.5 to €9 billion. There was also an increase in humanitarian contracts. In the 1990s and 2000s, there was a «trade boom» in relations between Russia and the EU in exports and imports sectors. This process was influenced by globalization, which, as a force of attraction, most intensively pushes geographically close countries to each other.

A significant achievement of technical cooperation was the EU's assistance in the field of education for Russia's accession to the Bologna process on September 19, 2003, aimed at creating a Single European higher education area.

Russia and the EU are also members of the Council of Europe, the Organization for security and co-operation in Europe, and the United Nations. Russia supports cooperation with the EU in such areas as countering human trafficking, terrorism, drug trafficking, organized crime, and illegal migration. There is also joint work to counteract global warming and the effects of climate change.

Thus, during the entire period of development until the end of the twentieth century, trade between Russia and the EU countries experienced periods of both growth and decline due to the influence of the political, market, and other factors. At the same time, the commodity structure of mutual trade remained stable.

Assessing trade between Russia and the EU in the 2000s, it is worth noting that the number of EU members has changed significantly in the new Millennium. A very important change occurred in 2004 with the expansion of the EU to the East and South. Since May 1, 2004, ten new countries with a total population of about 75 million people have joined the EU. The EU has created an economic space that is home to 450 million citizens, including residents of three former Soviet republics (Estonia, Latvia, and Lithuania), four former COMECON members (Poland, the Czech Republic, Hungary, and Slovakia), one former Yugoslav Republic (Slovenia) and two Mediterranean Islands (Cyprus and Malta). As the number of Central and Eastern European countries among EU members has grown significantly, Russia's trade with the EU has received an impetus for intensive development. After the transformation from the EU 15 to the EU 25, most of Russia's trade with Central and Eastern European countries became trade between Russia and the EU. In 2007, Bulgaria and

Romania became the 26th and 27th member countries of the EU, which also led to intensive growth in Russia's trade with the EU, but less significant than in 2004.

Radzhabova and Radzhabova (2015) noted that the main feature of the period before 2008, when the world economic crisis came, was an increase in the intensity of economic interaction between Russia and the EU. In 2008 the EU already accounted for more than 52 % of Russia's foreign trade turnover and was a source of 75% of direct foreign investment (€92 billion in 2008). Russia's economy had a real increase in GDP of 57,4% in 2000-2007 period with the highest present in 2000 year (10%) and the lowest in 2002 (4,7%), as we can see on the figure 1 (The World Bank Database, 2020b). By 2009, it has become the third most important external trading partner of the EU after the United States and China. Russia has delivered more than €115 billion worth of goods to the EU in 2009.

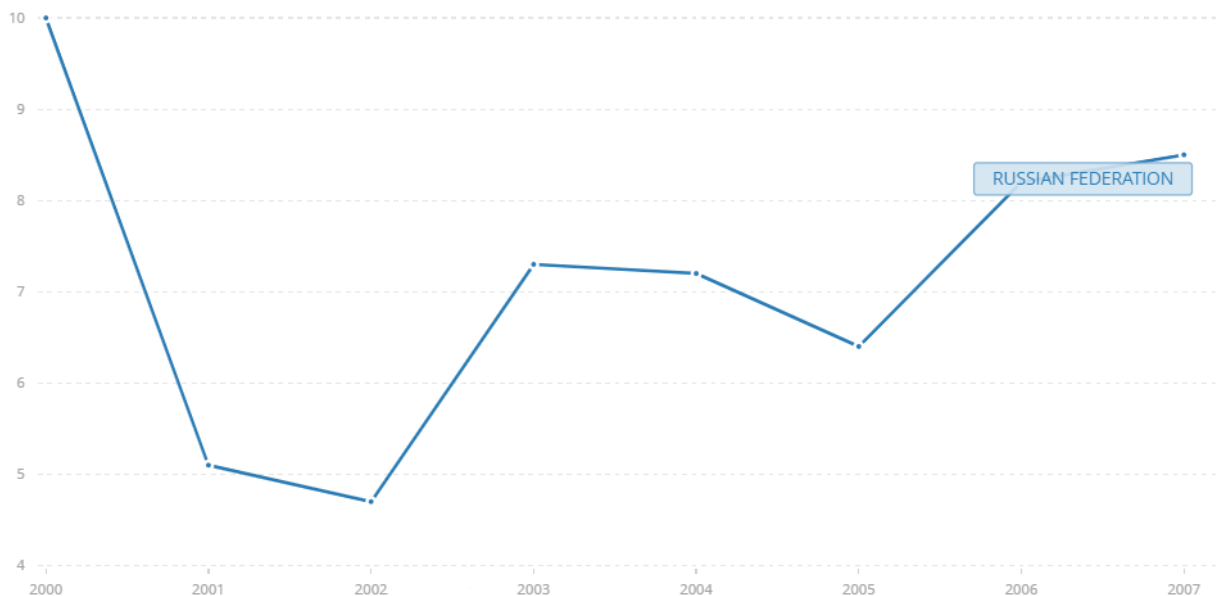


Figure 1 – GDP growth (annual %) - Russian Federation, 2000-2007 (The World Bank Database, 2020b)

Trade relations between Russia and the EU experienced steady growth in 2000-2012 with a single exception in 2009. According to the World Bank Database, the above trends were based primarily on the growth of the Russian economy from 2000 to August 2008 and from 2010 to 2013 (The World Bank Database, 2020a). The decline began in the second half of 2008 and continued in 2009. It was obviously triggered by the global crisis and its consequences for world oil prices (the main commodity).

In August 2012, after 18 years of lengthy and complex negotiations, Russia became the 156th member of the WTO. The EU as a whole consistently votes and supports Russia's

accession to the WTO. The negotiation process between the countries was complicated, each side tried to protect its interests more, to present its vision of the framework and conditions for interaction between the EU — Russia format and Russia's membership in the WTO European Commission (2012).

At the stage of accession to the WTO, hopes were expressed for its beneficial impact, which will stimulate the modernization of the Russian economy and improve the business climate, which will allow Russia to take a favorable position in the international division of labor. In chapter 3, we considered in detail the WTO claims between Russia and the EU.

1.2. Current history of trade and economic relations between Russia and the EU

Cooperation between Russia and the EU in all areas developed and progressed until 2014 (figure 2) when political differences over the conflict in Ukraine sharply worsened the relationship between the partners. Since 2014, the "era of sanctions wars" has begun for Russia (Doraev 2016). According to Skryl (2014), the expected result of using sanctions is an effect similar to that of military actions, however, with significantly less economic and human losses. The implementation of trade, economic and financial sanctions is a common and attractive tool, as it often resolves international conflicts with fewer losses. However, analysis shows that only in a few cases sanctions caused significant economic harm to their addressee and, even less frequently, have been able to change his or her economic, geopolitical and military strategy.

The EU and the US were the first to adopt sanctions against Russia, later Canada, Switzerland, Montenegro, Japan, Iceland, Norway, Australia, Albania, and Ukraine joined the sanctions to varying degrees, and later Turkey (restrictions on trade with Turkey have already been practically lifted). The reason was Russia's aggressive policy on the territory of Ukraine and the accession of Crimea. The EU and a number of other foreign countries have imposed a ban on entry to the relevant countries for a number of high-ranking Russian individuals, implemented a set of measures aimed at stopping the European Investment Bank's (EIB) financing of new projects in Russia, suspending investment in Russia by the European Bank for reconstruction and development (EBRD), and stopping the provision of the medium - and long-term loans to Russian borrowers, restrictions on the export of a number of dual-use goods and equipment and related services (including technical assistance,

intermediary services), supplies of weapons and military equipment, equipment for the oil and gas industry, etc. (Keshner, 2015).

Bulatova and Abelguzin (2015) in their article describes that the Russian Ministry of Finance in early 2015 estimated the damage directly from the sanctions at \$40 billion is a shortfall of Western capital inflows, and \$90-100 billion a year from the drop in export due to a 30% drop in oil prices. In reality, for the Russian economy this amount is much higher, because as a result of sanctions and ineffective policies of Russian authorities and institutions in the country there were the following events that led to economic losses: capital outflows of up to \$130 billion, of which about \$96 billion was incurred in the period after the imposition of sanctions; devaluation of the national currency in some periods up to two times; closure of the external credit market with the contraction of the Russian credit market; reduction of oil and gas revenues in dollar terms; closure of foreign companies, withdrawal of foreign assets; inflation growth in excess of 10%; reduction of incomes of the population; a banking crisis provoked by the tightening of the monetary policy of the Central Bank and a massive decrease in the number of foreign loans.

In our opinion, the official assessment of the damage caused by the sanctions imposed on Russia is clearly underestimated and requires taking into account the impact of sanctions on all spheres of the life structure of the state.

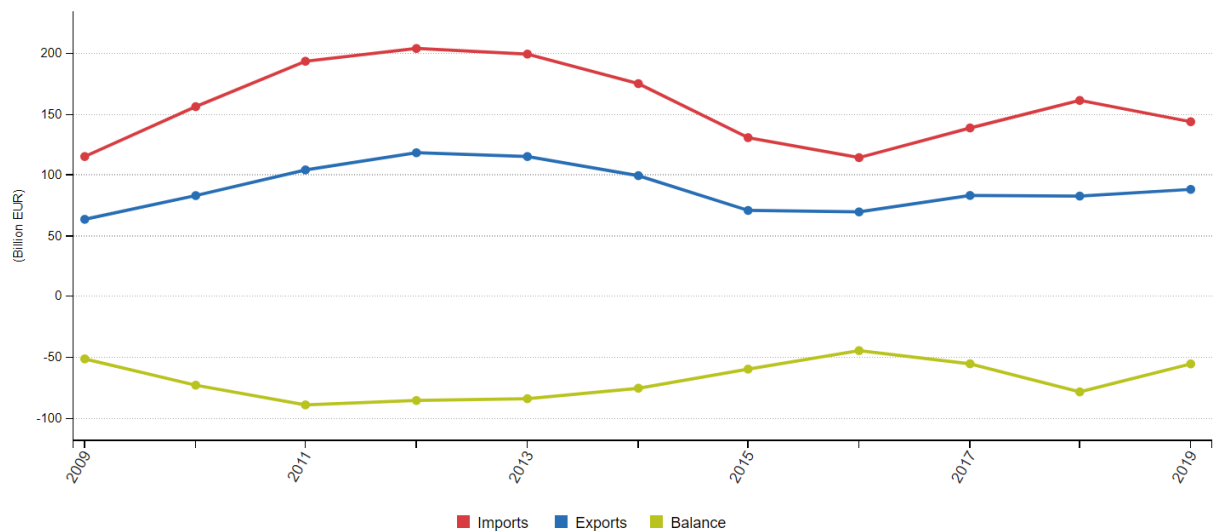


Figure 2 – Import, export, and trade balance between the EU and Russia, 2009–2019, (European Commission, 2020)

In November 2014, the Russian food embargo was imposed by a decree of the President of Russia. As part of the retaliatory sanctions, Russia is prohibited from importing

certain types of agricultural, farm products, raw materials and food from states that have imposed economic sanctions on Russia, including EU countries, as well as the United States, Australia, Canada and Norway (Nureev, 2017). The Russian Government approved the list of prohibited products, which was later expanded several times. To date, the list includes 53 items: animal products (meat, fat), milk and dairy products, fruit juices or canned fruits, salmon, seed potatoes, onions, hybrid and dietary supplements, baby food etc. The food embargo was intended not only as a response to Western sanctions, but also as a chance for Russian producers to take their place in the market. Therefore, these products were chosen, as their production was evaluated as promising on the Russian market and it also was easy to reorient their purchases by the Russian side to other countries.

Thus, the ban on food imports was applied to all products for which the EU had a large share in the total volume of Russian imports. Since Russia is not self-sufficient with regard to prohibited products, i.e. the country is highly dependent on imports, concerns were expressed about the consequences of the ban on the domestic market of Russia, as well as on the markets of its main trading partners (Voronin and Mitin, 2016).

According to Yanova et al. (2016), Russia's refusal to comply with the requirements of the European community for the Minsk agreements provoked a sharp cooling of relations with NATO and the EU. The decision to take sanctions measures against Russia has undermined cooperation between Russia and the EU in key areas of interaction. The crisis proved too strong in order not to draw attention to them. The introduction of sanctions has had a negative impact on the development of the Russian oil sector. The lack of access to the latest technologies has slowed the development of oil fields. It is known that Western technologies for extracting oil from offshore oil fields are difficult to replace.

There was a suspension of negotiations on a new Partnership and Cooperation Agreement, and some parts of the PCA ceased to apply due to the annexation of Crimea to Russia and the situation in Ukraine. Unfortunately, the positive impact of Russia's accession to the WTO in 2012 was offset. It was expected that the benefits of Russia's accession to the WTO would manifest themselves in the medium and long term. But in the short and medium-term, this only led to the opening of the Russian market, a massive influx of imported goods, which, given the low competitive ability of the domestic industry, actually led to the washing out of Russian production (Rambler, 2019).

In this regard, according to the representative Office of the EU in Russia, the volume of bilateral trade between the EU and Russia has been declining for 8 years since 2012,

which has moved Russia from the third to the fourth place among the main trading partners of the EU, not counting the UK. (Kadar, 2020).

Right after the imposition of the embargo, China immediately reacted to the prospect of occupying a free supply niche. In just a week after the introduction of sanctions by Russia, China is creating on the border with Russia a platform for direct import of food products (Alternativa, 2014). Belarus also offered its services to Russia and pledged to supply dairy products, meat, and certain types of fruits and vegetables (RiaNews, 2014).

Russian economists expressed their opinion on the situation with sanctions against Russia. They made suggestions for the protection of the Russian economy. Glazyev (2014), adviser to the President of Russia on regional economic integration, considered it necessary:

- to reduce the turnover of foreign currency in the Russian economy;
- to replace loans from state corporations and state banks received from Western banks with ruble loans;
- to withdraw all assets and accounts in dollars and euros from NATO countries;
- for The Bank of Russia to reduce dollar instruments and get rid of government bonds of countries that supported sanctions against Russia.

The sharp decline in trade is due to several reasons:

- the tense international political situation (European Parliament, 2019);
- the introduction of EU trade restrictions and the response of Russia (Kadar, 2020);
- the decrease in economic development within the EU, which was caused by the sharp rise in international tensions and the deteriorating situation with Russia (European Parliament, 2015);

Nevertheless, right after the sanctions were imposed, Russia has decided to focus on import substitution, i.e. replacing imports with goods produced by Russian manufacturers. Import substitution is necessary for a number of key sectors of the Russian economy, since that the Prebisch–Singer hypothesis is confirmed in Russia, when the economic situation of commodity-exporting countries (developing countries) gradually deteriorates if they do not start a policy of import substitution (Kaznacheev, 2015). Therefore, the Russian government has created additional incentives for investment in the agricultural and food sector in order to replace imports with products of its own production. This was achieved through the provision of comprehensive financial support to several programs of agricultural subsidies.

According to a study by the Russian Academy of National Economy and Public Administration (2013), pork, poultry and tomatoes are the only three commodity groups where import substitution took place. The growth of domestic production of these goods allowed for a reduction in their prices to a level lower than the pre-sanctions 2013. About other groups of products, such as dairy products, fruits, and vegetables, we cannot say that Russian products were able to replace European ones. The result is a significant increase in prices. Most of all, according to the study, from 2013 to 2018, butter rose in price (by 79%), frozen fish (by 68%) and cabbage (by 62%). Also, goods that were already produced in large quantities before the food embargo, such as pasta, flour, and sunflower oil, rose in price (by 25-35%).

Despite the disadvantages of the embargo, Russian farmers are happy with the current situation. They send official requests for the extension of sanctions against The EU and other countries. This is understandable, besides in addition to the lack of competition in the market, the government in 2013 introduced a large subsidy program to promote private farming, including cheap loans, regulated fertilizer prices, support for domestic agricultural machinery manufacturers, and government funding for other important components of agricultural infrastructure (Garbuzov, 2016).

Until 2014, Russia imported about 50% of its annual food consumption (about \$ 43 billion), with mainly meat, fruit, and dairy products accounting for 41% of total Russian food imports (\$17.5 billion) (Banse et al. 2019). The EU, as the largest trading partner, accounted for 37% of total imports of agri-food products to Russia in 2013.

In General, the impact of the Russian ban on food imports mainly had short-term negative consequences for some EU member States (Boulangier et al., 2016). In particular, exports from EU countries almost recovered during the year, and they even began to record growth.

The EU still accounts for a large part of Russia's foreign trade turnover, and energy plays an important role in the trade and economic partnership between the Russia and the EU. Cooperation between Russia and the EU in the energy sector has the following goals, in our opinion: creating a single free economic space that provides the EU with easier access to the Russian oil and gas industry, as well as the continuous transportation of oil and gas (Linkevich and Makarova 2019). This is very important for the EU because for 2019, 40.2% of gas enters the EU from Russia (Khalova et al., 2020). For Russia, of course, cooperation on this issue is very important, since the Russian economy depends heavily on the sale of

fuel, and the EU is the most important consumer of Russian oil and gas. Data about Russian crude oil exports by year are presented in Chapter 3.2.

In recent years, the EU's efforts have been focused on improving alternative ways of obtaining energy. This is done to minimize energy dependence on Russia. The EU is actively exploring the possibility of extracting energy from alternative sources. However, according to Bluszcz (2017) the EU still depends on Russia and other countries for energy. Russia's interests are to strengthen its position in energy trade in the EU.

It should be considered that the sanctions against Russia imposed by the USA and the EU are not supported unconditionally by all Central and Eastern Europeans. Timofeev and Makhmutov (2018) believe that the goals of imposing sanctions, namely: 1) signal dissatisfaction to the sanctioned country or domestic audiences, 2) restrict the target's further actions, and 3) coerce the sanctioned state to change its policies (in this case, to comply with the Minsk agreements), have not been achieved. Peter Szijjarto, the Minister of Foreign Affairs and Trade of Hungary, thinks that neither the political nor the economic goals that were linked to EU sanctions were successful. (Reid, 2017).

In addition, here is a quote from the EU's foreign trade strategy, approved by the Council of the EU on 27 November 2015: "The EU is strategically interested in closer economic ties with Russia. However, the future will depend crucially on Russia's domestic and foreign policy, which has not yet seen the necessary changes". (Permanent Mission of the RF to the EU, 2016). Thus, the EU says that until Russia changes the situation with Ukraine and implements the Minsk agreements, no close economic ties are expected.

The President of Russia Vladimir Putin in a message to the Federal Assembly (2019) said he hopes that the EU will take real steps to restore normal political and economic relations with Russia. That the citizens all of these countries are interested in such cooperation, which would certainly meet common interests.

It is obvious that both countries have taken a waiting position and hope for the appearance of diplomatic steps from the other side. Each side understands the need for cooperation. The EU has become a key trading partner for Russia, and Russia is the largest supplier of oil and gas to Europe. The Ukrainian crisis has clearly highlighted the urgent need to jointly develop an algorithm for relations between Russia and the EU in the region of our «common neighborhood», which would ensure that the interests of the parties and countries located in the region are truly taken into account, and would not be a source of irritants, but a tool for deepening and expanding our interaction.

Talking about the recent events of 2020 related to COVID-19, this also indirectly affected trade and economic relations between Russia and Europe. So, on March 20, 2020, the Prime Minister of Russia Mikhail Mishustin (Podchufarov, 2020) said that the sanctions list will be reduced for a while. This measure is associated with the catastrophic scale of the spread of COVID-19 in the world. The government believes that due to the threat of virus spread, the procedure for importing essential goods should be simplified. Permission to import essential goods from abroad was given, and Customs was given a "green corridor" for a month. Perhaps this will be a small step on the long road to negotiations on the lifting of sanctions, given that earlier Putin promised the EU a reciprocal lifting of sanctions in case of steps towards it.

Also, after the UK leaves the EU in 2020, Russia confirmed that it is going to continue to increase trade cooperation with the country. The representative office of the Ministry of Agriculture of Russia has already informed participants of foreign economic activities with the UK about the procedure for importing products to Russia. According to data for the end of 2019, deliveries between the two countries have already increased by 25%, the figure exceeded \$17 billion and continue to grow (Chemodanova, 2020).

The history of relations between modern Russia and the EU dates back to about thirty years. The sanctions policy pursued by the countries of the Western Alliance, including the EU and Russia's counter-Measures, significantly affected the decline in business activity in both the political and economic spheres. There were significant fluctuations in the volume and dynamics of foreign trade turnover, as well as changes in investment policy (European Commission, 2020, April). The current geopolitical situation and heterogeneous economic interests of the EU member States hinder the effective development of mutual cooperation. Global challenges and threats are accompanied by deep transformational processes in international relations. The Eastern turn in Russia's foreign economic policy, which corresponds to strategic national priorities in multilateral relations with foreign countries (pragmatism, multi-vector approach, predictability), is a stimulating factor in the «new political and economic doctrine». A system based on the principles of mutually beneficial and equal partnership. In these circumstances, one of the priority areas in the framework of cooperation between Russia and the EU remains energy policy, which forms a common economic space in the field of energy security and improving the mutual competitiveness of economies.

1.3. Features of EU-Russia trade and economic relations

In recent years, trade between Russia and the EU has been characterized by the disappearance of the previous stable growth. According to Seanews (2020), during 2019, the trade turnover between Russia and the countries of the European Union decreased by 4.9% year-on-year down to 231.2 bln euro. Compared to 2017, the decrease was even larger amounting to 8.8%. The EU has quietly accepted the problem of declining foreign trade relations with Russia, as there are several aspects for the EU. The first is political. At a time when the EU is imposing economic sanctions, it is strange to worry about falling exports and imports. At the same time, the decrease in exports of agricultural products to Russia due to the response of Russian measures, in general, was possible to compensate for European producers by various regulatory measures in the EU internal market.

In what concerns Russia, it is unlikely that any economy can keep the same GDP growth rates and the exchange rate of the national currency in the face of sanctions with its key trading partners. Even those companies that are not directly affected by the sanctions have risks of uncertainty. It is likely that cooperation with Russia in these conditions will lead to a rise in transaction costs to compensate for additional risks.

The second aspect was that the reason for the fall was not due to physical dynamics, but rather to the fall in oil and gas prices. This situation led to a sharp decrease in the cost of imports, which was generally positive for the EU.

The structure of Russian exports to the EU (figure 3) is dominated by fuel and raw materials, mainly petroleum products and crude oil. However, if we consider the development of the national economy, this is not profitable, since Russia loses the added value that it could get if it were to supply finished products. On the contrary, European exports are diversified and consist mainly of end-use goods, mainly industrial consumer goods and food. The EU exports high-tech final products, as well as imports raw materials and semi-finished products. For some developing countries and countries with economies in transition, these products account for a significant share of exports.

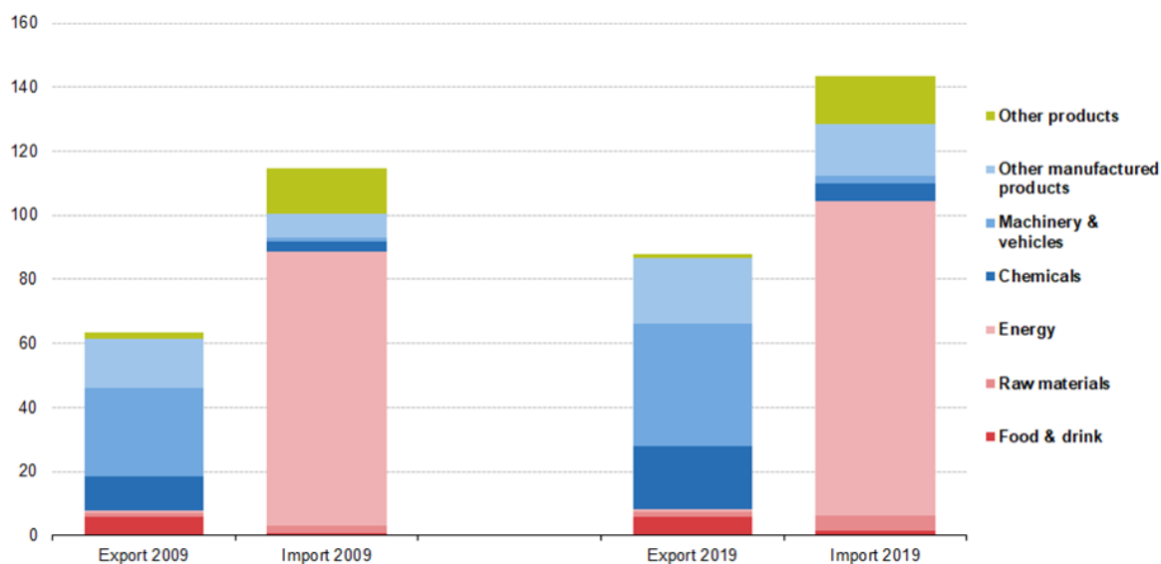


Figure 3 – EU trade with Russia by product group, (EUR billion), 2009-2019 (Eurostat, 2020a)

The turnover of foreign trade between Russia and the EU in 2019 amounted to \$277.796 billion, a decrease of 5.6% compared to the previous year, according to the Federal customs service of Russia (2020).

There are also problems with the transfer of European technologies to Russia. The geographical structure of foreign direct investment (FDI) in Russia continues to grow, even after joining the WTO, with a high share of European offshore jurisdictions and a low level of localization of production. Russia is still much dependent on the EU for investment. The departure of European investors in the economic downturn has had a very negative impact on the Russian economy. The outflow of European capital due to EU sanctions has a significant negative impact not only in the sphere of transport and military-technical cooperation, but also in the gas industry, although it has not been formally sanctioned by the EU. As an example, in 2014 the net export of capital by the private sector from the Russian Federation amounted to 153 billion dollars, while in 2015 it decreased by 2.7 times to 56.9 billion dollars (Kurganova et al., 2016).

Talking about share of export in the production of goods, we can see that in 2019 most of the production of coal, rubber and glued plywood, more than 60%, is exported. About 50% of the produced oil and petroleum products, Russia's main export product, also goes abroad (The Ministry of economic development of Russia, 2019).

Goods	%
Crude oil	48.2
Natural gas	32.6
Petroleum products	51.1
Coal	60.5
Timber	10.7
Plywood glued	65.9
Wood pulp	25.3
Synthetic rubber	66.2
Passenger cars	7
Trucks	9.1

Table 1 – Share of export in the production of goods in 2019, %, (The Ministry of economic development of Russia, 2019).

Another feature of Russian-European relations is that European financial organizations and companies are prohibited from issuing loans or acquiring shares in projects that are affected by sectoral sanctions, or from buying or selling new bonds, shares, or similar financial instruments with a maturity of more than 90 days issued by Russian banks with predominant state participation, development banks, or their subsidiaries.

We can say that the introduction of the sanctions regime violated an order of mutually beneficial economic relations. Restrictions on access to European technologies and investment affect the development of the Russian economy. On the part of European businesses, there was a reduction in the presence of The EU in the Russian market, which immediately caused significant losses and affected the decline in bilateral trade.

Taking into account the existing economic potential of Russia and European countries, the developed logistics of mutual trade and the comparative geographical proximity, it is clear that at the moment the level of bilateral trade and economic cooperation is minimal from the actual capabilities of the parties. There is a situation of underutilization of existing trade opportunities, mostly related to the policy and the lack of an effective system to support bilateral trade and investment in promising areas for the parties with the participation of state structures.

2. Analysis of the development of trade and economic relations between Russia and the EU

2.1. Analysis of foreign trade turnover between Russia and the EU

In this chapter we review and analyze various economic data related to trade between Russia and the EU. We are interested in how these relations generally developed before and after the imposition of bilateral sanctions. We also note how trade in oil and agri-food has changed, as these commodities were the most damaged due to political disagreements in 2014. We have identified the main trading partners of Russia and the EU, which trading partners have retained their positions and which are no longer leaders.

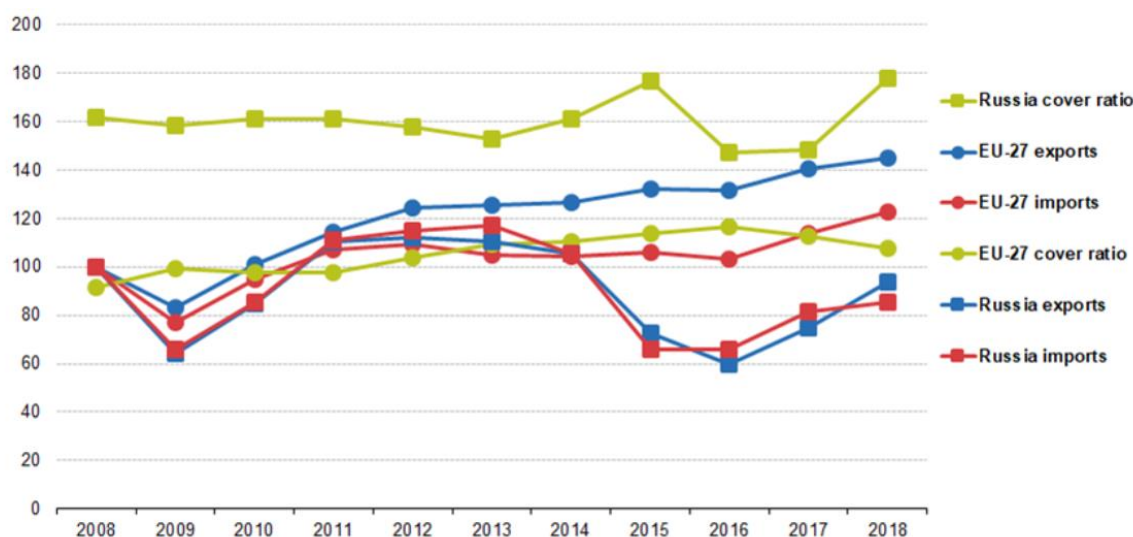


Figure 4 - Trade in goods of the EU-27 and Russia, 2008-2018, European Commission (2020)

Russia and the EU have been linked by intensive trade and economic relations for a long time. And after a strong decline since 2013 and several years of declining trade relations, small and stable growth finally appeared in 2016. Figure 4 shows that import and export from the EU were lowest in 2009 (77 and 83) and highest in 2018 (123 and 145). For Russia, the peaks were in different years in contrast to the EU. Exports from Russia were lowest in 2016 (60) and highest in 2012 (112). Imports to Russia were the lowest several times in 2009, 2015 and 2016 (66) and highest in 2013 (117).

Of course, the position of Russia as a trade partner of the EU has changed over time. Figure 5 shows Russia's position among the EU's largest trading partners in 2019. In 2019, Russia was the fifth largest partner for EU exports of goods (4%). Although, in 2012, Russia was the EU27's third most important trading partner after the USA and China. Now ahead

of it are countries such as: The United States (18%), Great Britain (15%), China (9%) and Switzerland (7%). It was the fourth largest partner for importing goods from the EU (7 %), followed by China (19%), the United States (12%) and the United Kingdom (10%), followed by Switzerland (6%).

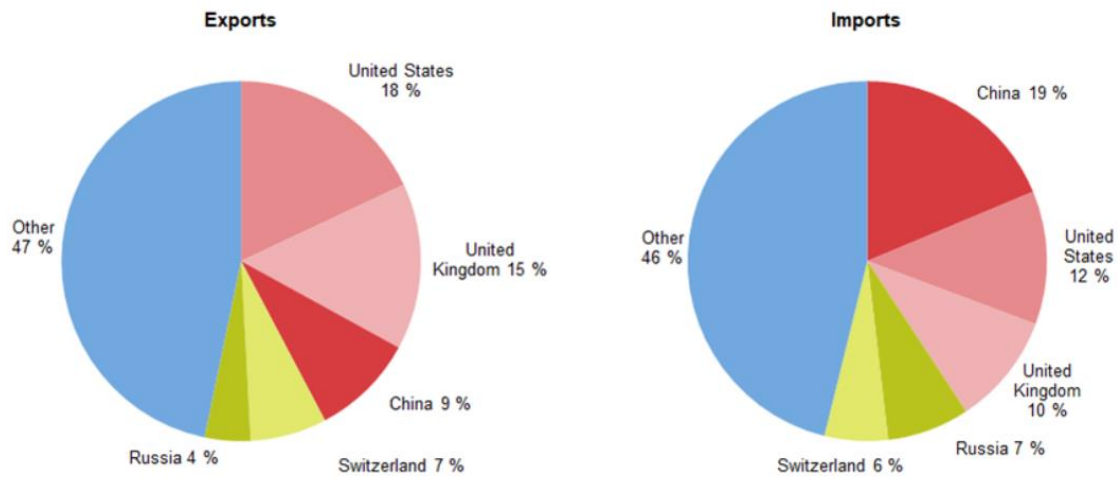


Figure 5 – Main trade partners of the EU-27 in 2019, (Eurostat, 2020b)

For Russia, the EU is the largest investor, with a reserve estimated at €276.8 billion in 2018, or 75% of total Foreign Direct Investment in Russia (figure 6, European Commission, 2019). The volume of FDI from Russia to the EU in 2018 amounted to €89.3 billion, or about 1% of the total number in the EU.

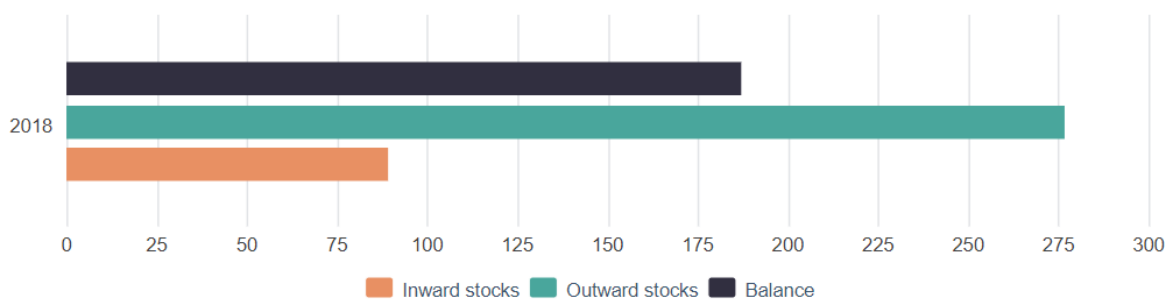


Figure 6 – Foreign direct investment from EU to Russia, (European Commission, 2019)

In trade turnover the decrease was determined with almost all EU member states, except Luxembourg, Ireland, Denmark and Portugal, while the latter estimated an increase in importations from Russia by 86.4% (World Trade Center Moscow, 2018).

According to Ru-stat (2019), the largest Russian partners from the EU in 2019 were Germany- €57.0 billion (8.3% of the total turnover of Russia), the Netherlands – €49.8 billion (7.3%) and Italy – €26.7 billion (3.9%).

The three biggest exporters to Russia from the EU were Germany (26.6 billion euros), Italy (7.9 billion euros) and Poland (7.4 billion euros). Latvia (37.7 %) had the highest share for Russia in its exports outside the EU (Eurostat, 2020b).

The three largest importers from Russia to the EU are Germany (27.8 billion euros), the Netherlands (21.4 billion euros) and Italy (14.3 billion euros). Finland (43.6 %) had the highest share for Russia in its foreign economic imports (European Commission, 2019).

In Russia, a high trade surplus with the EU maintains at €55.6 billion in 2019.. The largest deficit in trade with Russia is in the Netherlands and Poland. In 2019 only six of the 28 EU countries (the Czech Republic, Estonia, Ireland, Latvia, Luxembourg, Slovenia) had a slight surplus. The Czech Republic has the largest surplus (Finanz, 2020).

Fuel is a major product of the Russian economy. In 2019 Russia was the origin of 40% of EU imports of gas and 27% of EU imports of oil. Fuel and energy products continued to dominate Russian exports. Although, over the past year, their share in value has decreased from 68.0% to 65.0%, industrial goods were about 12.5%, chemical goods-3.6%, and non-energy commodities-2.8%.

Foreign trade turnover is cyclical in nature. In General, the indicators of foreign trade turnover between Russia and the EU are declining, and the share of the leading EU countries decreased by 2 % from 2015 to 2018. Russia is increasing its trade turnover with some of the leading EU countries. At the same time, the share of trade turnover with France is subject to fluctuations (up from 2014-2015 by 8.1 %; down from 2016-2018 by 6.8 %). The dynamics of foreign trade turnover with other EU member States is not so cyclical, and the share of the largest EU countries has decreased slightly (0.6 %). The development of trade relations in the energy sector, despite the sanctions policy, has remained unchanged, although some groups of high-tech goods and food have been significantly suspended. As a result, there was a structural shift in the foreign trade turnover of Russia and the EU - maintaining the share of exports from Russia and reducing imports.

Data from Russian-trade (2019) shows that in the TOP 5 countries of the world with which Russia is actively developing trade, economic and political relations, foreign trade turnover in 2018 increased by 19.5 %, the main increase of which was due to the growth of exports (29.5 %). Moreover, the export trade turnover with China increased by 43.9%, and with Germany-only by 32.2 %. Consequently, the geography of Russia's foreign trade policy

has seen drastic changes. In terms of the total amount of commodity turnover, China occupies a leading position. There has been an Eastern turn in foreign economic policy (China), which does not mean a loss of interest in Europe. Of the five leading countries in terms of world trade turnover with Russia, three are EU members. The EU continues to maintain its leading position in terms of trade turnover with Russia.

The EU unilaterally froze all bilateral economic dialogues (even before the imposition of sanctions), the main goal of which was achievement of The Common economic space between Russia and the EU. Also, according to the EU decision, negotiations on the new basic agreement (NBS) between Russia and the EU were frozen.

Unfortunately, bilateral summits, which often end with major economic initiatives, no longer take place twice a year. The proposal to create a one economic space from Lisbon to Vladivostok, which was first voiced by the EU, and then picked up by Russia, literally hung in the air the initiative "Partnership for modernization", which was born during the summits, froze. This is no longer discussed. There is no corresponding format.

The position of the European Commission on establishing official contacts with the Eurasian Economic Union (which began in 2015 and includes 5 countries located in Eastern Europe, Central Asia and Western Asia) has not yet been determined and a wait-and-see position has been taken.

The EU actively uses a set of protective measures to preserve the security of the domestic market from competition from third countries, including Russia. Eight anti-dumping measures are in effect for Russian goods in 2020.

Recent EU trade protection initiatives have led to further tightening of sanctions. In a report published in 2016 on support for the steel industry (European Commission, 2016), the European Commission announced its intention to initiate anti-dumping investigations based not on specific facts of damage, but on its threat, and the investigation of cold rolled products was applied for the first time to the mechanism of retroactive collection of duties.

The EU has filed 4 disputes in the WTO against Russia since the state joined the WTO in 2012 (The World Trade Organization, 2020):

- 2014 on excessive import duties in Russia. The WTO confirmed that there was a violation of the rule. Since may 2017, Russia has reduced its import duties on disputed tariff lines.
- 2014 On Russia's imposition of an embargo on pork supplies to the EU on the basis of sanitary and phytosanitary requirements (SPS). The WTO confirmed as a result of the proceedings that Russia's ban was illegal and obliged Russia to

bring its measures in line with the obligations of the world trade organization. However, Russia expanded the scope of the 2014 political ban to include EU pork. The case is currently under review by the Commission.

- In 2014, following the work of the panel and the Appellate body on the issue of Russian anti-dumping duties on light commercial vehicles, the WTO declared certain aspects of duties incompatible with its rules. Russia has implemented this decision.
- 2013 on the Russian recycling fee for imported cars: after consultations with the WTO, Russia expanded the recycling fee to also cover locally produced cars and introduced parallel compensation measures for them.

At the same time, Russia filed 4 claims in the WTO against the EU:

- 2013 and 2015 on gas price adjustments as part of EU anti-dumping investigations.
- 2014 for the third EU energy package.
- 2017 on EU anti-dumping measures for the import of certain types of cold-rolled flat products from Russia. All four of them are currently on-going.

If we consider the economic relations between Russia and the EU, we can draw a number of conclusions:

1) the Parties are not able to completely terminate economic and trade relations. This is due to the fact that these countries are the main economic partners and, therefore, the parties cannot stop most of the economic ties, since in this scenario, the economies of the two sides will be greatly damaged.

2) the Parties are aware of the need to establish economic and trade ties, despite the existing political differences. Improving economic relations will stimulate not only the trade sector, but also the development of such industries as agriculture, tourism, education, health, high-tech production, cultural integration, and mutual security.

Given all of the above, we can formulate three possible options for the development of relations between Russia and the EU:

1. Stagnation. This scenario is most likely, its essence is that the parties are not ready to change their line today. The economic interdependence of the parties will play a stabilizing role in the future Russia-EU dialogue, but the diversification of energy supplies from both sides will develop. Russia will continue to move to the East.

2. Normalization. This scenario can only be achieved in two cases. In the first case, Russia will come to the conclusion that the current situation weakens its economic potential, and increasing integration with China does not give the desired effect. In the second case, The EU will go to the easing of sanctions in the event of a change of power, primarily in Germany and France.

3. The deterioration of relations. The probability of this scenario is quite likely and, most likely, even more than normalization (Kortunov A., 2018). In the event of further escalation of the conflict in Ukraine, Russia will be perceived by the EU as a country that interferes in the Affairs of other States. In this case, close economic cooperation will be put at risk. If the current problems between the EU and Russia are not resolved, only competitors from other countries, especially from Asia, will benefit from this.

In this research, we have analyzed in detail the important groups of goods whose trade was most affected by the decline due to bilateral sanctions: for Russia - oil and petroleum products, for the EU - agricultural products.

2.2. Impact of EU sanctions on the production and trade of oil and petroleum products in Russia

The oil and oil refining industries occupy the main place in the fuel and energy complex of Russia. Every year, Russian exports of oil and other products increase, and new oil fields are developed and opened.

The largest share in the structure of exports of Russia is occupied by mineral products, which include exports of oil-producing companies. In 2019, the share of mineral resources exports was 53.4%, down from 6.9% in 2018 (The Ministry of energy of Russia, 2020). However, over the past five years, the share of mineral resources exports in the total structure of exports of goods of Russia has tended to decrease, due to the expansion of the country's production potential and the implementation of import substitution policies, under sanctions from Western countries.

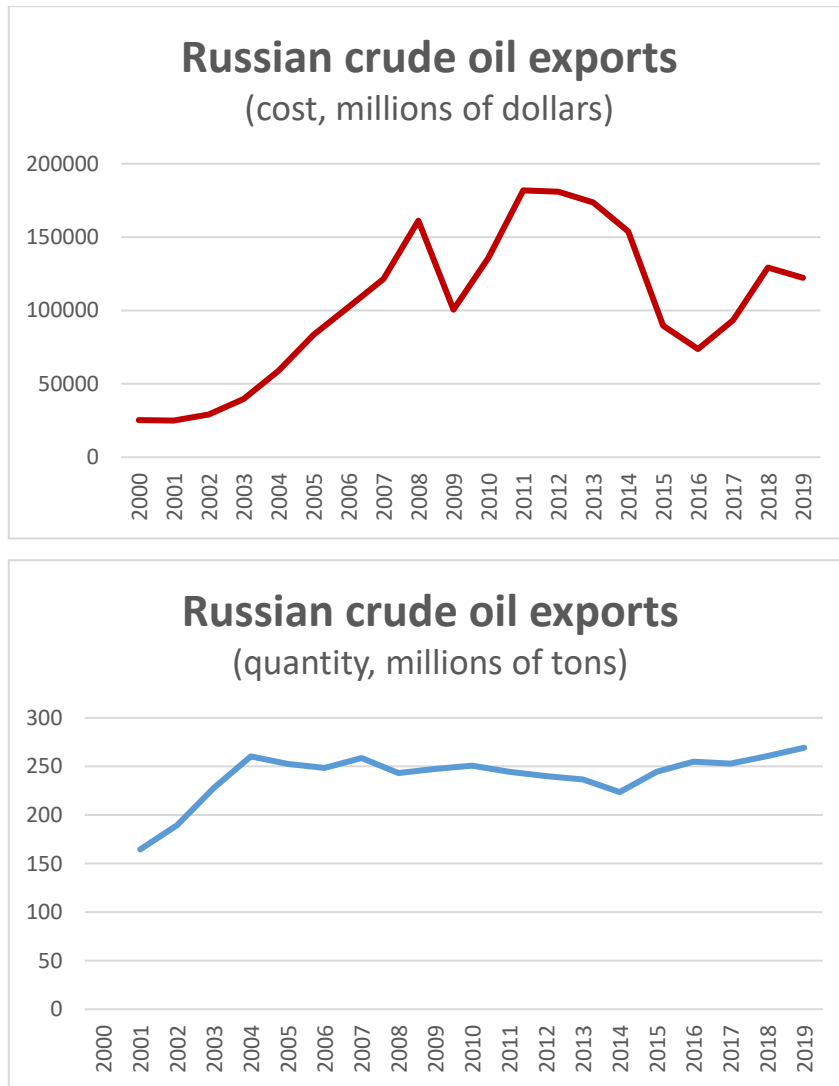


Figure 7 – Russian crude oil exports 2000-2019 (quantity, cost), (Rosstat, 2020).

A significant decline in exports was observed in 2015-2016, which was due to anti-Russian sanctions, as well as the fall in oil prices, which occurred during this time period. In 2018, exports were at a high level. Despite the sanctions, there was an increase in trade turnover with the EU, and according to Knobel et al. (2019), this indicator increased by 19.3% in 2018. In addition, there was a favorable situation in the crude oil market, and there was an increase in world prices. Thus, in 2018, Russia's crude oil exports amounted to 260.2 million tons, which is 2.9% more than in 2017. In 2019, oil exports increased by 2.7% compared to 2018 and amounted to 267.5 million tons oil Exports increased mainly due to overcoming the consequences of contamination of the “Druzhba” oil pipeline.

Year	Export	Change, %
2017	252,6	2,5
2018	260,2	2,9
2019	267,5	2,7

Table 2 – Dynamics of oil exports from 2017-2019, million tons, (Apulei, 2020).

Russia is the second largest oil exporter in the world. The first place for oil exports in 2019 is still occupied by Saudi Arabia, whose exports in 2019 are 13.6% more than those of Russia (Apulei, 2020). The Largest buyers of Russian oil in 2019 were China, the Netherlands (where the largest transit port of Rotterdam is located) and Germany. Us sanctions against countries such as Iran and Venezuela have helped Russia increase its physical oil exports in 2019. So, in 2019, oil exports to China amounted to 49.3 million tons, to the Netherlands-27.1 million tons, to Germany-13.3 million tons.

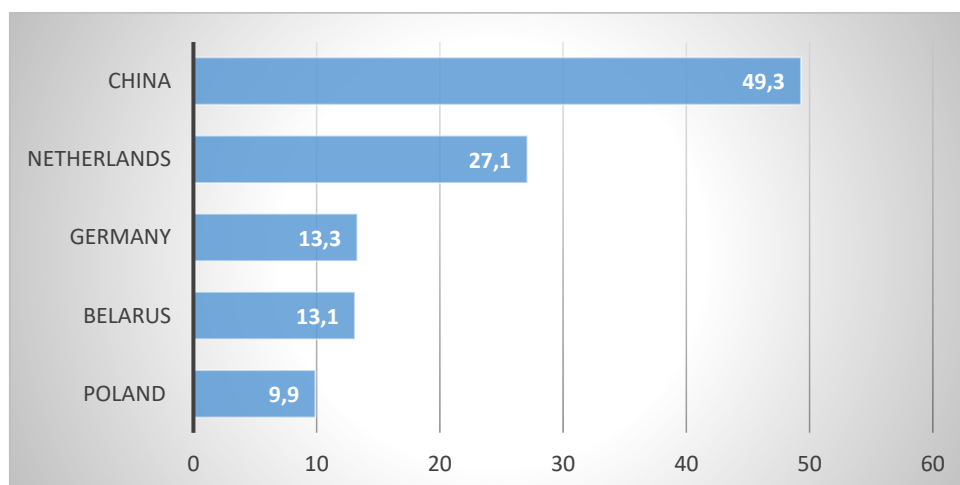


Figure 8 – Main countries receiving oil from Russia in 2019, million tons, (Apulei, 2020).

In 2019, the UK increased its oil purchases from Russia by more than 2 times both in value (from \$493 million to \$1.2 billion) and in physical terms (from 0.98 million tons to 2.4 million tons). Russian oil partially replaced oil from Algeria and Nigeria, whose imports to the UK fell by 13% and 48%, respectively.

The main problems affecting oil exports from Russia to foreign countries are: high competition in the world oil market, as well as low quality of raw materials (although better than UAE oil), high costs associated with oil production, oil transportation, etc. (Ryzhenko, 2014). In addition, Russia is currently the leader in oil production and is not a member of OPEC, so it cannot control oil prices. Russia is an energy-dependent country, so the economy depends on oil sales to the world market. Accordingly, if the demand for oil is high, then the

revenue from sales will be high. In turn, when the demand for oil decreases, budget revenues are significantly reduced.

Also, due to the sanctions imposed on enterprises of the fuel and energy complex (FEC), there was a shortage of technological equipment for the oil and gas industry. At the moment, there are no specific analogues of equipment for oil production in Russia. Various ways out of the current situation were tested to solve this problem: purchases using "under-the-table" payment, purchase of used equipment, as well as the purchase of Chinese-made analogues. However, the Russian Ministry of industry and trade sees the solution to the problem in the development of Russia's own resources and import substitution. In 2014, when the oil and gas engineering program was actively launched, the presence of Russian producers was just over 40%, but by the end of 2018 it exceeded 55%.

The EU is actively seeking to diversify energy supplies, but today its own reserves are extremely small to satisfy the entire EU. However, the policy of diversification stipulates that deliveries from one country should not exceed more than 30%. Russia should also diversify its export flows and expand its presence in the markets of the Asia-Pacific region. Especially now, the strategic partnership between Russia and the BRICS countries is growing. Russia has already signed a 30-year contract with China for the annual supply of 38 billion cubic meters of gas.

Oil prices in 2020 plummeted amid a slowdown in business activity in the world due to the coronavirus pandemic. An equally serious blow to the commodity industry was the withdrawal of Russia and Saudi Arabia from the OPEC+ deal and the subsequent price war. As a result, in April 2020, the cost of raw materials went into negative territory (- \$40). In May, a new OPEC+ deal came into force, and commodity prices began to recover. However, oil is still more than 40 percent cheaper than in January 2020.

Experts believe that in the absence of new agreements to limit OPEC+ oil production in the future, prices may collapse or price wars. Analysts (Lenta, 2020) named four possible scenarios.

According to the first, most likely scenario, oil-producing countries will not be able to reach the next new agreement in 2022, and oil prices will be set by market mechanisms. Then the average cost of raw materials will be from \$30 to \$40 per barrel. In this case, Russia's revenue from the sale of black gold will decrease by 44-50 percent compared to last year.

If the OPEC+ deal is extended, the demand for oil will grow, but it will be met by countries that have not entered into the agreement. The average price level will be from \$45 to \$50. Russia's revenue will be reduced by a quarter compared to last year.

The third scenario assumes that OPEC+ will expand, the agreement will be signed by the United States, Canada and other oil-producing countries that were not previously part of the deal. This development is unlikely, since the US authorities do not have the ability to limit the volume of production of private companies. However, the consolidation of oil assets and the transfer of control over them to the Federal government is not excluded in 2020-2021, analysts say. This is the most profitable scenario for Russia — the average level of oil prices will be from \$50 to \$55.

The fourth scenario — the most unprofitable for Russia — involves the US refusing to participate in the agreement and subsidizing its own oil producers. The average price of oil in this case will be from \$25 to \$30, while in the US market it will cost from \$50 to \$55. However, this will allow the States to expand their activities abroad.

For a long time, European politicians have expressed their opinion about the need to reduce dependence on Russia and ensure the EU's energy security. Of course, the general deterioration of the macroeconomic situation and foreign economic conditions complicates the geopolitical situation. These factors, as well as the coronavirus pandemic and difficulties in negotiations with OPEC countries, have only aggravated the structural and institutional problems that already exist in Russia, including the country's dependence on oil production, economic growth and industrial production that have been slowing down in recent years.

2.3. Impact of the Russian embargo on agri-food trade between Russia and the EU

Agriculture occupies an important place in the EU's foreign trade. The EU is one of the world's largest exporters of agri-food products. Exports of agri-food products provide EU farmers with additional income, while a possible decline in exports can destroy the fragile stability of this sector of the economy. The current Russian embargo potentially threatens a trade volume of €5 billion and affects 9.5 million people working in the relevant industries (Kashtanova et al. 2018). Agri-food supplies are an important, but still not a key component of the EU's foreign trade.

Russia's ban on purchasing agri-food products from the EU has led to serious problems for European exporters. The European Commission used certain forms of support, in particular financial assistance and new regulatory measures. Exporters began to diversify their supplies, and also tried to supply banned products to Russia through re-export operations. Belarus has become one of the most popular countries for re-exporting agri-food products to Russia. In this regard, the export of prohibited goods from the EU to Belarus has increased significantly in recent years.

The EU Member States were not equally affected by the Russian food import ban. Depending on the volume of their agri-food exports to Russia prior to 2014, some Member States paid a higher toll than others. According to Mauricas (2015), the Baltic States (Lithuania, Estonia and Latvia) faced reduced economic growth of about 0.6% of GDP as a direct consequence of the Russian sanctions. The strongest effect on EU agricultural exports was recorded for fruits and vegetables, where prices dropped significantly in the short run (Boulanger et al., 2016). This was especially the case for Poland, Lithuania, Greece and Belgium. The dairy sectors of Finland, Lithuania and Hungary were also negatively affected by the Russian food import ban. Senotrusova and Svinukhov (2016) found that Germany and Italy recorded the highest losses (in value terms) from the Russian countermeasures; the value of their total exports to Russia was reduced by 8.5 and 2.4 billion EUR, respectively. Nevertheless, Fedoseeva (2016) argues that the losses of German agri-food exporters were not that severe when compared with previous trade disruptions of German milk and meat exports to Russia, specifically in 2013 when Russia banned imports of specific products originating from the EU because of sanitary reasons. Furthermore, Fedoseeva (2016) points out that, for the German dairy market specifically, the Russian food import ban had a very low price-dampening effect on the end-consumer prices (0.35-0.75 EUR per 100 kg). In contrast, a study conducted by the German Federal Ministry of food and agriculture (BMEL, 2014) indicates that there were hardly any price-dampening effects of the Russian food import ban on the end-consumer prices of milk in Germany. As Russia had already banned meat imports from Germany in 2012, the same result was found for the German meat market.

Overall, the impact of the Russian food import ban mainly had a short-run negative effect for certain EU Member States (Boulanger et al., 2016). In particular, exports from the EU countries almost recovered within a year, and they even started recording an increase. This was mainly possible due to quick switches to other markets, particularly in East Asia, and by restructuring domestic production, as was the case in Lithuania, where previously

exported raw milk to Russia was processed into butter and skim milk and sold mainly on domestic and neighboring EU markets.

According to Lomakin (2017), Russia's vast natural and human resources, as well as state intervention and agrarian reforms, may allow it to increase the competitiveness of its agriculture in the future. Due to the sanctions imposed, Russian producers have been able to increase production volumes for the domestic market. By imposing import taxes, non-tariff barriers and even import bans, the import of agricultural and food products is evidently reduced. Concurrently, additional incentives for investments in the domestic agricultural and food sector have been created in order to substitute imports with domestically produced products. This has been achieved by providing comprehensive financial support within several agricultural subsidization programs (The Ministry of agriculture of the Russian Federation, 2018). Thus, since 2014, import substitution in Russia has started to gain momentum, and the production of some agricultural products under the embargo has grown significantly. Production of pork (ice cream) increased by 2 times, and production of chilled and frozen poultry meat increased by 70%. In the Sverdlovsk region began production of meat delicacies – jamon, in Tatarstan-Parmesan cheese, in the Altai – Camembert and mascarpone cheeses, in Orenburg – mozzarella. Unlike meat, the development of the dairy sector was much less active. Despite a significant increase in self-sufficiency in cheese production (about 20%), quality disadvantages are significant and consumers prefer imported cheese to Russian production (Tleubayev, 2018).

Although the results of import substitution are already available, the process is still developing slowly. The main reason for this is that, first, the demand for imported goods has fallen due to a decrease in the income of the Russian population, and, second, national producers are not able to completely replace large volumes of imported products for several years (Kuznetsov et al., 2016). The main reasons for market volatility include a relatively low proportion of large enterprises that can effectively adapt to the conditions of the embargo and sanctions, and an insufficiently developed market infrastructure (Borodin, 2016).

Research calculations by Kashtanova et al (2018) show that if the sanctions persist, EU agri-food exports to Russia will consistently decline. Given that sanctions have the effect of deflecting trade, it is logical to expect a gradual decline in the volume of trade in agri-food products that are not subject to sanctions. The EU exports in 2019 may fall to €4 billion (figure 3, p.19). In the long term, exports may decline even further. If in the future the mutual sanctions between the EU and Russia will be lifted, we can expect recovery of EU exports. However, it will be very difficult to restore export volumes to the level of 2010-2013, as

there will be difficulties in returning to the market goods that have lost their market share as a result of the sanctions. Meanwhile, the Russian government has decided to continue supporting domestic agricultural production and has made some progress in this area. This fact will create problems for goods from the EU. Moreover, EU manufacturers are making significant efforts to promote their products in alternative markets, which may lead to a decrease in their interest in exporting to Russia.

Banse et al (2019) conducted a study and found that if import tariffs remain the same as they were before 2014, the lifting of the ban on food imports will cause only a slight decrease in the total volume of agricultural production in Russia. Agricultural products that were previously protected by the ban will again face competitive products (especially livestock) of higher quality (especially dairy products). However, due to high import tariffs and quantitative restrictions on imports by quotas (similar to the levels before 2014), imports will not increase significantly. In contrast, for products that were not banned (such as wheat, other grains, and oilseeds), Russia will maintain its competitive advantage in production and continue to export these products after the ban on food imports is lifted. In addition, the removal of trade barriers with the EU, under the hypothetical scenario of creating a free trade zone between Lisbon and Vladivostok, will further contribute to increasing the production of these products in Russia.

However, the removal of all trade barriers and the creation of a large free trade zone between the EU and the Eurasian Economic Union (EAEU) will lead to some significant changes in the agricultural sector of both sides. According to the results of the study (Banse et al, 2019), EU farmers will benefit more than Russian farmers. However, it is difficult to say whether Russian farmers will become more competitive in the coming years after the creation of such a free trade zone. Improving competitiveness will largely depend on how well Russian farmers will use their knowledge and modern technologies, as well as on macroeconomic trends, in particular the ruble exchange rate in the country.

Conclusions

Unfortunately, the trade and economic dialogue between the EU and Russia has become a “victim” of political confrontation, and the future of these relations depends not only on the economic situation, but also on the political one. As much as we would like to separate these areas, we will not be able to depoliticize trade and economic issues between the EU and Russia, since modern trade policy cannot be effective without close connection with international policy.

At the moment, a possible convergence of the positions of Russia and the EU on the so-called “new” negotiating issues is clearly visible on the WTO platform. In terms of e-Commerce, there are proposals for procedures and content for this negotiation track. The positions presented by Russia and EU (The Ministry of energy, 2020) complement each other to a large extent, creating a Foundation for cooperation at the expert level. The list of issues for the upcoming study also falls into the areas of interests of both parties: transparency, protection of the interests of online consumers, simplification of trade procedures, and liberalization of market access (Isachenko and Medvedkova, 2019).

The idea of discussing investment cooperation issues, which was developed at the WTO, also finds positive support from both delegations, which actively contribute to the discussion on the development of new rules for simplifying investment procedures. The list may also include issues related to the harmonization of rules of origin of goods, as well as issues of non-tariff regulation, including mutual recognition, where appropriate, of technical standards (Sokolova et al, 2018).

The need for legal formalization of bilateral trade and economic relations between Russia and the EU is still relevant. Now it is difficult to imagine the partners' focus on the formation of a free trade zone; rather, we can talk about regulating cooperation in matters of mutual importance (for example, customs cooperation, the fight against counterfeit products, transport cooperation, technical regulation, sanitary and veterinary control, etc.).

It is obvious that trade policy issues should be resolved at the level of the EU. Currently, it is advisable to pay attention to Russia's negotiations with individual EU members within their competence, and then adapt the “best practices” and solutions to the level of the EU – EAEU (the Eurasian Economic Union). The accumulated tensions, sanctions, and the collapse of the “The EU from Lisbon to Vladivostok” project have led the parties to the conclusion that it is necessary to find new ways to restore the dialogue. The current situation

indicates a lack of effective negotiation platforms for the development of cooperation between the EU and Russia, the EU and the EU. Negotiations in the new conditions should be less ambitious, and they will actually have to start from the very beginning. Previous experience is significant in terms of identifying potential opportunities, but new realities should be taken into account. Currently, neither the EU nor the Eurasian Economic Union (EAEU) interested in a Free Trade Zone. Given the WTO membership, further tariff reductions and liberalization of trade in services that are of interest to the EU are not primarily beneficial to Russia and will lead to even greater asymmetry in trade relations. Industrial dialogue and scientific cooperation in areas of mutual interest can be most effective. Analytical, expert and academic support is essential, as well as constant dialogue based on a pragmatic approach that is free from political confrontation.

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