At a glance

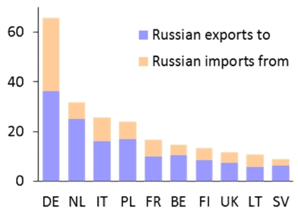
May 2015

EU-Russia trade

Trade between the EU and Russia has decreased due to the difficult context (tensions over Ukraine, long-standing trade barriers, sanctions and counter-sanctions, recession in Russia), but remains substantial.

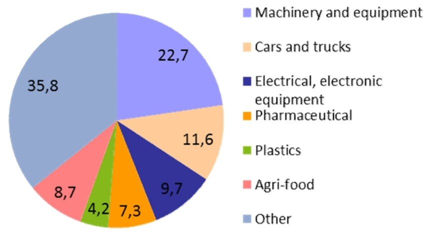
Trade facts and figures

Trade with Russia by Member State (products)



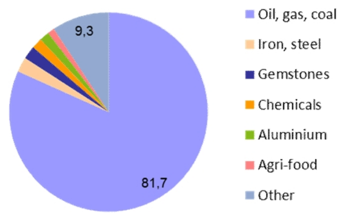
Data: Eurostat, 2014 (€ billion)

EU exports to Russia, %
(Agri-food = HS 1-24)



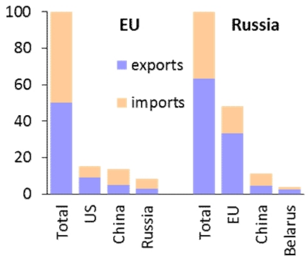
Data: ITC Trade Map, 2014

Russian exports to EU, %
(Agri-food = HS 1-24)



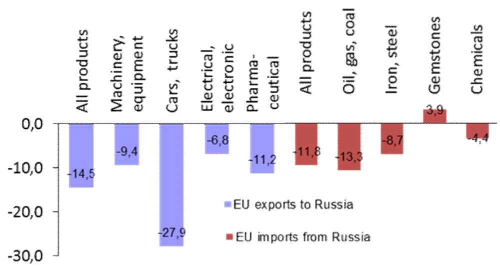
Data: ITC Trade Map, 2014

Main trade partners, % of total foreign trade



Data: Eurostat, 2014

% change in EU exports to/imports from Russia, from 2013 to 2014



Data: ITC Trade Map, 2014

EU-Russia products/services trade

Data: Eurostat, 2013 (€ billion)

- Massive energy exports tip the trade balance towards a substantial Russian surplus;
- In 2014, the EU's (goods) exports to Russia fell by 14.5%, whereas imports from Russia fell by 11.8%;
- However, the EU remains by far Russia's largest foreign trade partner (48% of total Russian foreign trade in 2014); for its part, Russia accounts for 8% of the EU's foreign trade;
- The EU exports a diversified mix of mainly manufactured goods to Russia – machinery (23%), cars (12%), electrical and electronic (10%), agri-food (8%) and medicines (7%). Russian exports to the EU are dominated by fossil fuels (82%), followed by metals;
- Trade in services accounts for 12% of total EU-Russia trade.

Legal framework for EU-Russia trade relations

A Partnership and Cooperation Agreement concluded in 1994 remains in force. Negotiations began in 2008 on a new agreement including a possible EU-Russia free trade area but these were broken off in March 2014.

Barriers to EU-Russia trade

Russian markets have traditionally been highly protected, with high tariffs (sharply increased following the 2008 economic crisis) and other restrictions (e.g. a 2005-07 embargo on Polish meat over alleged health

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concerns). It was hoped that the country's accession to the World Trade Organization (WTO) in 2012 after 19 years of tortuous negotiations would help to lift barriers to EU trade, with a Russian commitment to lower tariffs.

However, since then little has changed: Russia has not followed through on all its tariff reduction commitments, and numerous trade barriers remain ranging from excessive safety requirements for footwear imports to heavily subsidised energy supplies to domestic manufacturers. Four of these – including 'recycling fees' for imported vehicles, and a ban on EU pork products (allegedly due to incidences of African Swine Fever) – are the subject of complaints lodged by the EU with the WTO. Given Russia's track record of protectionism and the current economic recession, trade barriers are likely to stay firmly in place.

Role of the Eurasian Economic Union (EEU) in EU-Russia trade

Russia, Belarus and Kazakhstan have been members of a Eurasian Customs Union since 2010. The EEU (which also includes Armenia, while Kyrgyzstan is set to join later in 2015), launched on 1 January 2015, aims to take economic integration a step further.

Despite the EEU's stated objective of creating an EU-style single market, its member states do not yet operate as a single trading bloc. For example, the other EEU countries have not followed Russia's unilateral ban on agri-food imports from the EU, and are even accused of subverting it by re-exporting such products to Russia. For this and other reasons trade barriers remain within the EEU; Russia and Belarus have partially reinstated customs checks, and are using food hygiene concerns as a pretext to block imports of each other's products. There is no prospect of the EEU countries replacing the EU as Russia's main trading partner: during the five years of the Customs Union's existence, Russia's trade with these countries has remained marginal, accounting for less than 10% of its total foreign trade, a percentage which is actually decreasing.

In 2012, the European Commission announced that the conditions were not yet in place for an EU-Eurasian Customs Union agreement, and this position remains valid for the EEU, with which the EU has not established formal relations.

Impact of recent developments on EU-Russia trade

Sanctions over the Ukraine crisis

Sanctions adopted in July and September 2014 by EU and other western countries have hurt the Russian economy by restricting access to western financial markets, but the impact on trade is limited. On the Russian side, only arms exports are concerned — but these were already at a very low level before sanctions. As for EU exports to Russia, the bans on arms, dual-use equipment (civilian industrial products used by the defence industry) and innovative technology used by Russia's energy sector to explore new reserves of oil and gas are of strategic importance, but again have little immediate impact on trade volumes.

On the other hand, Russian counter-sanctions have banned numerous EU agri-food products (representing 43% of total EU agri-food exports to Russia and 4.2% of total EU agri-food exports to the world in 2013). As a percentage of total EU exports to Russia (4%) or total EU exports to the world (0.3%) this is relatively small, but the impact on individual sectors and in certain countries (the Baltic countries and Poland are the worst affected) has been severe; there has also been a knock-on effect on the freight transport sector.

EU agricultural producers have responded successfully by exporting more to other markets (e.g. US, China); while agri-food exports to Russia fell by 38% year-on-year in the final quarter of 2014, EU agri-food exports to the rest of the world grew substantially (2%; excluding Russia, 6.6%), reaching a record high.

Russia is considering options to mitigate the impact on Greece, Hungary and Cyprus, but it is unclear how it could do so without violating WTO rules prohibiting discrimination between member states.

Other economic factors

The significant decline in Russian trade with non-EU countries (January-February 2015, year on year: China – -28%; Belarus – 41.2%) suggests that sanctions are much less significant than other factors:

- economic recession and a weaker rouble (-17% against the euro over the past year, despite a recent recovery) mean that Russian consumers and businesses can no longer afford imported goods;
- while the volume of Russian oil and gas exports has only declined slightly, lower fossil fuel prices (crude oil: -45% over the past 12 months) have severely reduced their value;
- meanwhile, a weaker rouble has not increased EU demand for non-energy Russian exports – reflecting the poor state of Russian industry and its failure to develop internationally competitive products.