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The Economic Relations between Ukraine and Russia at the Present Stage

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THE ECONOMIC RELATIONS BETWEEN UKRAINE AND RUSSIA AT THE PRESENT STAGE

Summary:

The article deals with contemporary economic relations between Russia and Ukraine. It is said that Russia remains the main foreign trade partner of Ukraine. Adequate replacement of the Russian market of European market did not happen. But it is pointed out that for the first six months of 2015 60 percent of trade turnover with Ukraine were lost. The most sensible loss for Russian – Ukrainian gas market. Also according to the calculations of the Moscow World Trade Center many non-commodity exports fell. Examples are shown. It is also said that there are products whose export from Russia to Ukraine in the last year managed to increase. At the end it is stating what trade relations between Ukraine and Russia might be in 2016. Some examples of Russian investments in Ukrainian companies and Ukrainian into Russian are shown.

Key words:

economic relations, trade partner, exports to Ukraine, gas market, investments

Russia remains the main foreign trade partner of Ukraine. Despite the trade preferences of the EU in relation to the Ukrainian goods, adequate replacement of the Russian market of European market did not happen. This is against the backdrop of an unprecedented reduction of trade turnover between the two countries - in 2014 by 30% to \$ 28 billion¹.

For the first six months of 2015 60 percent of trade turnover with Ukraine were lost, - the Ministry of Economic Development stated. - Affected areas in which cooperation has traditionally been strong. First of all it concerns the military-technical cooperation. Any decline in trade of metallurgical products, mineral and chemical industries².

¹ А. Коваленко, *Торгово-Экономические Связи Между Россией И Украиной - Жить Придется Вместе*, „гражданин созидатель” (online), September 30, 2015, <<http://www.gr-sozidatel.ru/articles/torgovo-ekonomicheskie-svyazi.html>> (15.10.2015).

² А. Коваленко, *Развелись, но жить придется вместе*, „Новости oilru.com” (online) September 28, 2015, <<http://www.oilru.com/news/480302/>> (15.10.2015).

The value of exports to Ukraine, steadily increasing in 2000-2008 from the crisis greatly reduced in 2009 and increased sharply in 2010-2011, reaching the absolute maximum - 30.5 billion dollars, according to the Center for Integration Studies of the Eurasian Bank Development. Then, in 2013, they dropped to 23.8 billion dollars, but it is still significantly exceeded the pre-crisis level. At the end of 2014 the volume of exports narrowed to \$ 17 billion³. Thus its commodity structure remained more diversified than Russian exports as a whole. However, fuel products were dominated here too: if all countries with an average of 69.5%, while in Ukraine - 60.4%. In addition to the fuel Russia exported to Ukraine chemical products (16%), machinery and equipment (10%), metals and metal products (4.4%)⁴.

"The most sensible loss - Ukrainian gas market, which for many years we have been export monopoly" - the deputy dean of the Faculty of World Economy and International Affairs Andrei Suzdaltsev from the HSE believes.

According to the State Statistics Service, last year, Ukraine reduced natural gas imports from Russia by nearly 44% compared to 2013 - up to 14.4 billion cubic meters. In January-June of 2015 deliveries of Russian gas were reduced to 3.7 billion cubic meters. on the 1 of July, imports of gas from Russia to Ukraine in general has been suspended.

"The reduction of mutual trade will worsen in 2015 - Suzdaltsev predicts. - For example, the Ukrainian side is actively promoting the project of replacement of Russian nuclear fuel for Ukrainian nuclear power plants American nuclear fuel."

In the first half of this year there was more than a halving of Russian exports to Ukraine. Exports of military and dual-purpose goods fell by 75.4% to \$ 1.3 billion.

According to the calculations of the Moscow World Trade Center many non-commodity exports fell.

A significant decrease (43%) occurred in the section "Machinery and equipment", to 447 million dollars. Supply of products of metallurgical industry decreased to 182 million dollars, more than half. Deliveries of steel products fell to 55%.

Magnitogorsk Metallurgical Combine (MMC). In 2014, according to the Federal Customs Service, it did not put to the Ukraine products (mainly steel sheet rolling) of 134 million dollars. The share of Ukraine's exports of MMC decreased from 11 to 3%.

³ *Товарооборот Украины с РФ за квартал упал на 63%,"РИА Новости Украина"* (online) May 18, 2015, <<http://rian.com.ua/economy/20150518/367692380.html>> (18.08.2015).

⁴ *Торговое Представительство Российской Федерации В Украине, Торгово-экономическое сотрудничество Российской Федерации с Украиной*, May 2015, <http://ukr.ved.gov.ru/dvustoronniy_otnosheniya/obzor_torg/> (15.10.2015).

According to the MMC, shipment of metal entering the Ukrainian market, have been reoriented to the markets of the CIS countries, particularly in Kazakhstan, Uzbekistan, Azerbaijan, Turkmenistan, Kyrgyzstan and Tajikistan.

Urals Pipe Works (drop of supplies to Ukraine in 2014 - 20%) refocused flows from Ukraine to Kazakhstan and Belarus.

"Energomash" plant named after Glushko completely stopped deliveries of engines and power plants to Ukraine in 2014 (in 2013 they were 23% of exports, the loss - \$ 25 million). Deliveries redirected to the USA⁵.

Zavolzhsy Plant, a branch of Kazan Motor software (99% of production - turbo jet and turboprop engines, gas turbines - in 2013 all products were delivered to Ukraine), in 2014, products redirected to Uzbekistan and Lithuania.

AvtoVAZ has reduced the share of Ukraine's exports in 2014 from 40 to 13%. Now, most of the products the company exports to Azerbaijan, Belarus and Egypt⁶.

The chemical industry is also trying to find new markets or increase supplies to traditional markets. For example, from Russia to Ukraine over the past three years, more than 65% of all deliveries of ammonia were sent. They decreased by 13%, or almost by \$ 70 million. But there was an increase of supply of ammonia to other countries. In the first half of 2015 export of ammonia from Russia to Belgium and Germany has increased by nearly 62 million dollars⁷.

Also nearly 15% of Russian export of mineral fertilizers was supplied to Ukraine. These deliveries were down by 15%, or 16.4 million dollars. At the same time, export of fertilizers increased to India (74 million), Brazil (23 million), Thailand (to 31 million), Switzerland (15 million dollars). Export of ammonium nitrate to Ukraine dropped by 99%, or \$ 44 million. But the traditional buyer of this commodity, Brazil, in 2015, increased its purchases by nearly 44% to \$ 212 million⁸.

In general, non-oil export (excluding defense goods, ores, slag, ash, mineral fuels, oils and products of their distillation) in the first half of 2015 compared with the first half of 2014 fell in 2794 from 5935 exported goods to Ukraine, from 3.3 to \$ 1.6 billion⁹.

But there are products whose export from Russia to Ukraine in the last year managed to increase. According to General Director of the World Trade Center of Moscow Vladimir Salamatov supply of certain types of fertilizers and other products of chemical industry, certain products of nonferrous and ferrous met-

⁵ <http://www.ved.gov.ru/export/countries/ua/ua_ru_relations/ua_ru_projects/> (18.08.2015).

⁶ *Развелись, но жить придется вместе – исследование ЦМТ по взаимной торговле России и Украины в материале журнала "Эксперт", „World Trade Center Moscow” (online), September 28, 2015, <[http://www.wtcmoscow.ru/news/actual/razvelis-no-zhit-prividetsya-vmeste-issledovanie-tsmt-po-vzaimnoy-torgovle-rossii-i-ukrainy-/>](http://www.wtcmoscow.ru/news/actual/razvelis-no-zhit-prividetsya-vmeste-issledovanie-tsmt-po-vzaimnoy-torgovle-rossii-i-ukrainy-/)> (15.10.2015).*

⁷ *Торговое Представительство Российской...*

⁸ *Ibidem.*

⁹ *Развелись, но жить придется вместе...*

allurgy, some products of the sections of "machinery and equipment" and "Means of land transport" increased. For example, more than 20 times the supply of public railway freight wagons increased (with the board height 60 cm) - from 65 to 1 704 units to 23 million dollars¹⁰.

Supplies of diesel in the first half of 2014 were not carried out at all. Its export reached 649 thousand tons from a zero value. Russian oil refineries due to flexible pricing policy in the Ukrainian market pushed the main supplier - Belarusian refiners.

In addition to the fuel sharply (33 times) increased the supply of electricity - up to 1.5 million KW h. The increase is due to the fact that Ukraine, in 2014 did not buy Russian electricity. In December of the last year against the backdrop of the fuel crisis, signed an agreement with "Inter RAO" of imports to 1.5 GW¹¹.

What can happen to the Russian-Ukrainian trade in 2016? In total, the Ukrainian economy should take more than 15 thousand technical EU standards. Ukraine's transition to European standards has some fear among experts that Ukrainian companies that will not be able to meet the specified schedule periods of transition to these standards will be forced to dump on the Russian market, directing to it products that do not meet the new standards.

In addition, there will be a substantial narrowing of the range of Russian exports to Ukraine, its de-industrialization. Russian supplies of medicines, chemical products with high added value, tires, fuel, power engineering products, electric motors, electrical equipment, railway equipment, and refrigerators will be forced from the Ukrainian market.

The supply of goods, production of which is established in Russia by multinational companies (pastries, coffee, tobacco, cosmetics, cars) will remain largely in the same volume. The supply of raw materials and intermediate goods, on which the EU is not a competitor to Russia (cement, ore, coal, oil and oil products, ammonia) will also be continued.

According to the head of the department of economic history of IIEIR Sergey Afontsev, even if the worst scenario, when Ukraine will begin to use the facilities of agreement in full force, the amount of economic damage to Russia will not be catastrophic: "Ukraine's economy is in a position that to wait some mass " repressed " export of Ukrainian goods is not necessary. During the transition of Ukraine to European technical standards risks may occur, we estimate them two and a half billion dollars a year in the current dynamics of the turnover. But these risks are realized only if all the provisions of the Association Agreement are met accurately and on time. In view of the situation in the Ukrainian economy, it is difficult to expect. It is difficult to assume that

¹⁰ А. Коваленко, *Торгово-Экономические Связи...*

¹¹ *Развелись, но жить придется вместе...*

Ukraine, in accordance with the schedule goes to European standards within the next two to four years, it is quite unrealistic scenario”¹².

It is difficult to respond to the main question, what will be the trade regime in the triangle Russia-Ukraine-EU. Tripartite consultations are continuing, they are closed to the public.

"Unfortunately, the consultations are not subject to open debate, neither Russia nor the EU and the risk creates that everything will be decided behind the scenes without taking into account the views of business and professional community” - Sergey Afontsev says¹³.

No one has seen yet an open comparison of figures provided by experts of any party, no one has reason to discuss the positions of the parties on the merits. Ukrainian and European sides clearly focused on the fact that since January of the next year the agreement enters into force.

Russian investments in Ukrainian companies:

1. Purchase of Lisichansk oil refinery (oil refining), Ukraine, the investor of TNC-BP, the volume of investments - 87.546% (an estimated 570 million US Dollars);
2. Purchase of Odessa oil refinery (oil refining), Ukraine, the investor of "Lukoil", the volume of investments is estimated to 500 million USD;
3. Purchase of "ZALK" plant (non-ferrous metals), Ukraine, the investor of "Rusal", the volume of investments - 68.01% of the authorized capital¹⁴.

Ukrainian investments in Russian companies:

1. Group "Energo" controls mines "Kostromovskaja" and "Zarechnaya" in Russia and develops Ivanovskoye coking coal deposit;
2. "Donbass Fuel - Energy Company" bought three coal mining enterprises in the Rostov region: 100% of open Joint Stock Company "Donskoy Anthracite", 100% of JSC "Shakhtoupravleniye" Obukhov " and 66.7% of " Sulinanratsit "(Rostov, Russia).
3. Corporation "Roshen" in 2001 bought Lipetsk factory "Likonf."
4. Company "Kiev-Konti owns "Confectioner-Kursk"¹⁵.

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¹² *Ibidem.*

¹³ *Ibidem.*

¹⁴ *Торговое Представительство Российской...*

¹⁵ <http://www.ved.gov.ru/export_countries/ua/ua_ru_relations/ua_ru_projects/> (18.08.2015).

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