



REPUBLIC OF ESTONIA
MINISTRY OF ECONOMIC AFFAIRS
AND COMMUNICATIONS

Are Russia's Counter-Sanctions Hurting the European Economy? The Case of Estonia

Meelis Kitsing

Head of Economic Analysis

Ministry of Economic Affairs and Communications

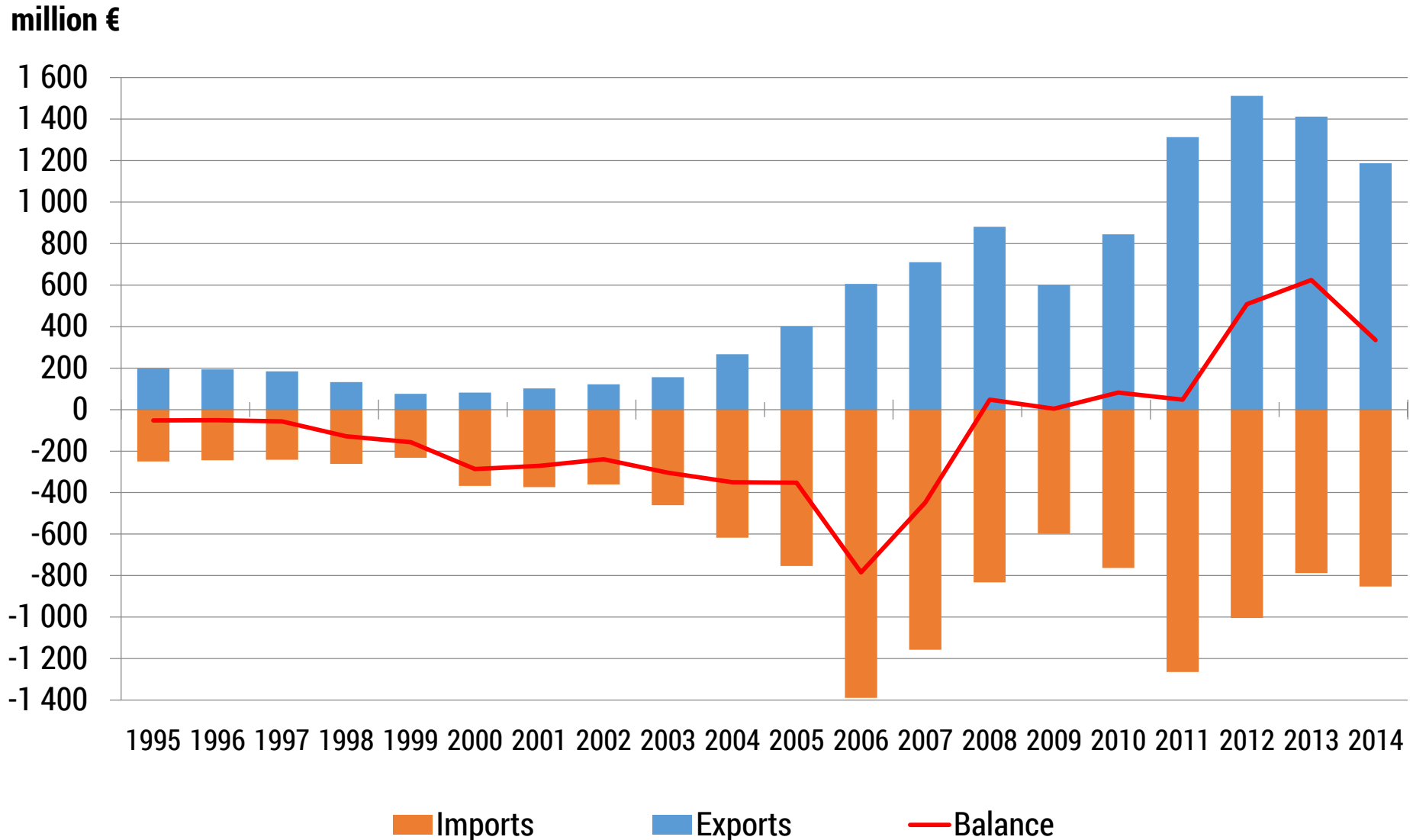
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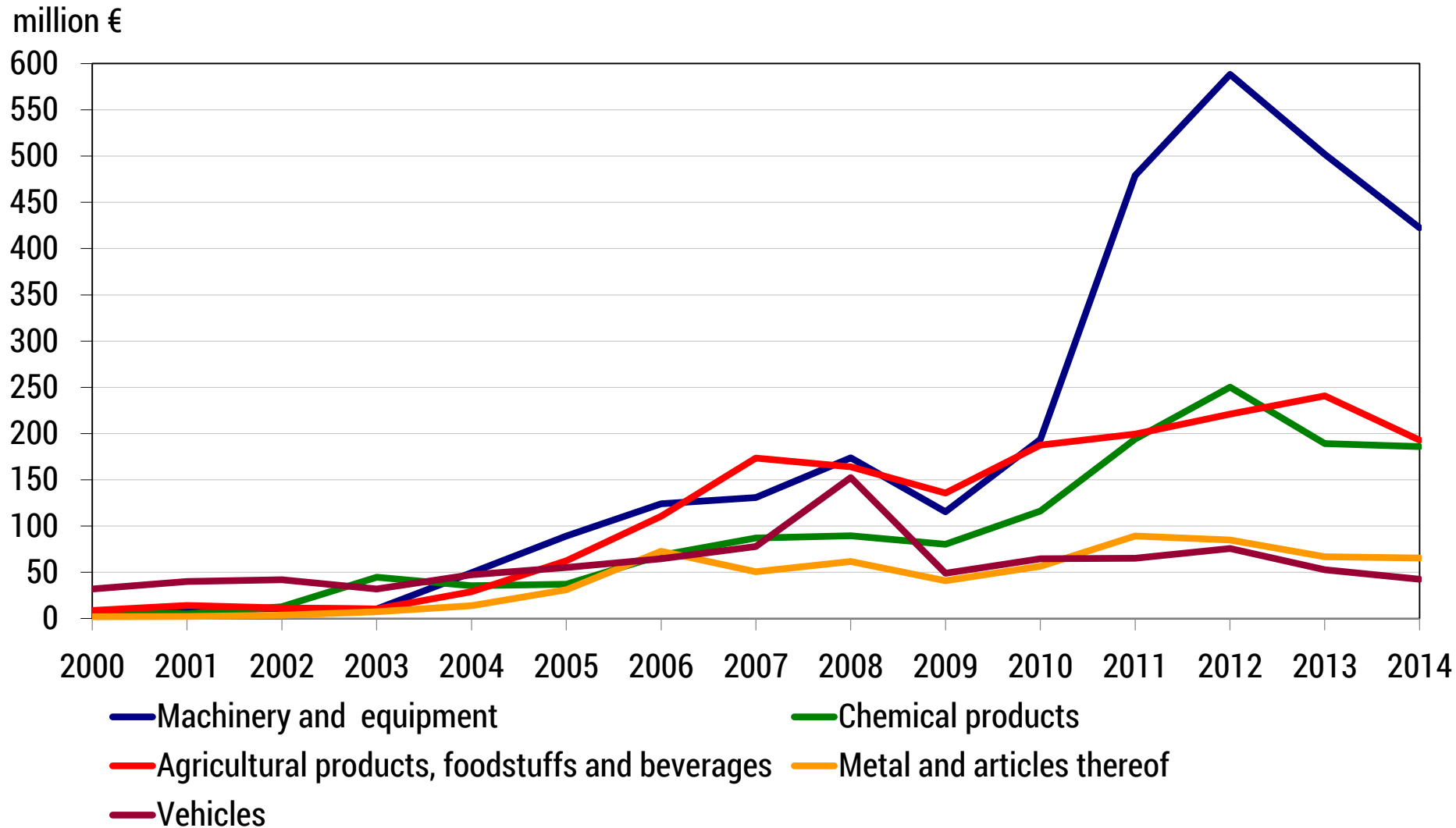
Theoretical context

- **Political economy literature on trade sanctions.**
- Sanctions fail to achieve desired outcomes most of the time.
- Through strict measures outcomes can be achieved.
- Partial achievements can be success.
- Threatening with sanctions vs. executing sanctions.
- Multilateral effort vs unilateral action.
- Smart and comprehensive sanctions vs simplistic sanctions.
- **Small open globalized economies and potential benefits of trade sanctions.**
- Short-term vs long-term adjustment.
- Incentives to diversify and create new products with higher value-added.

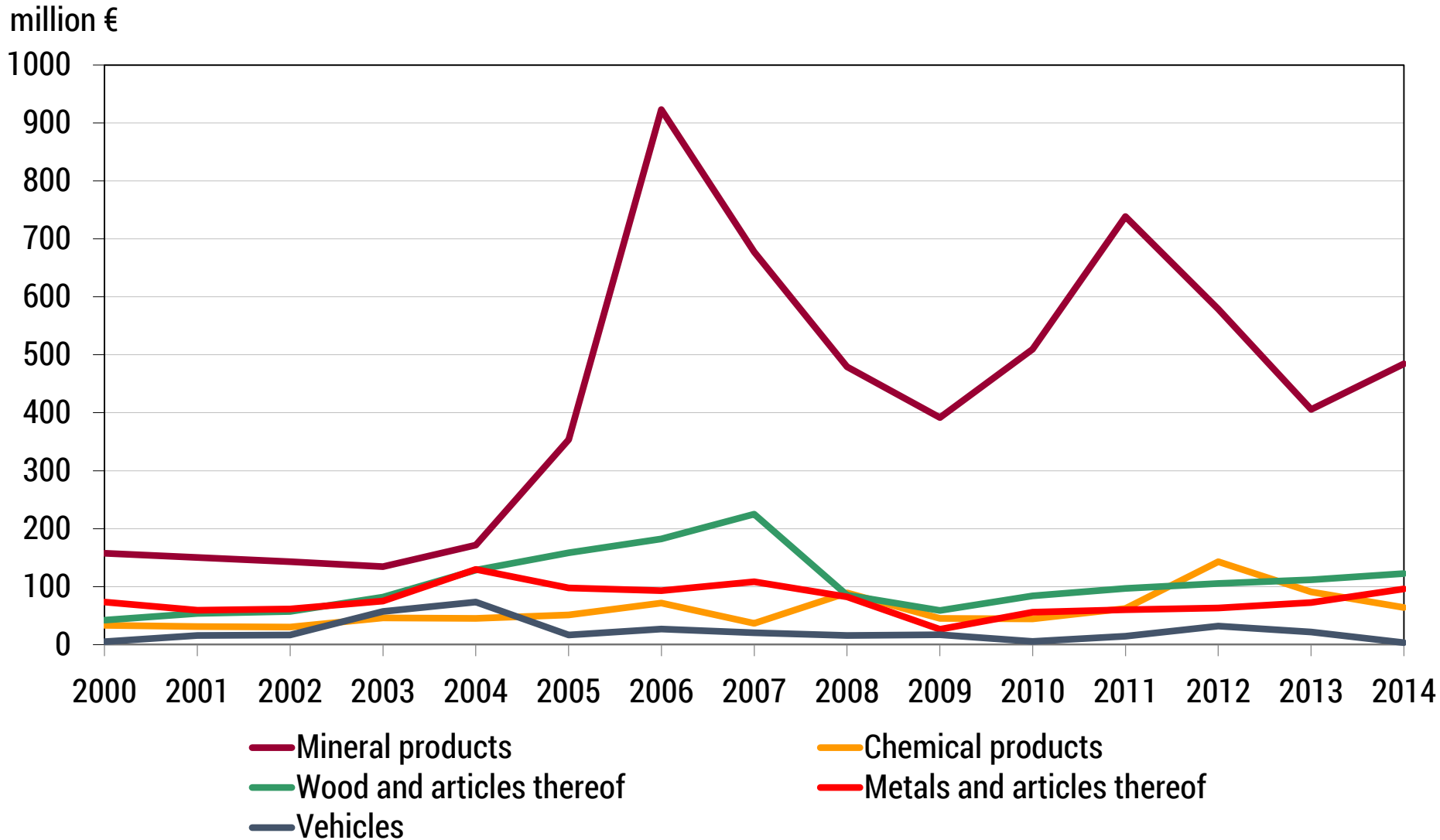
Historical context: Estonian trade with Russia



Exports by main product groups to Russia



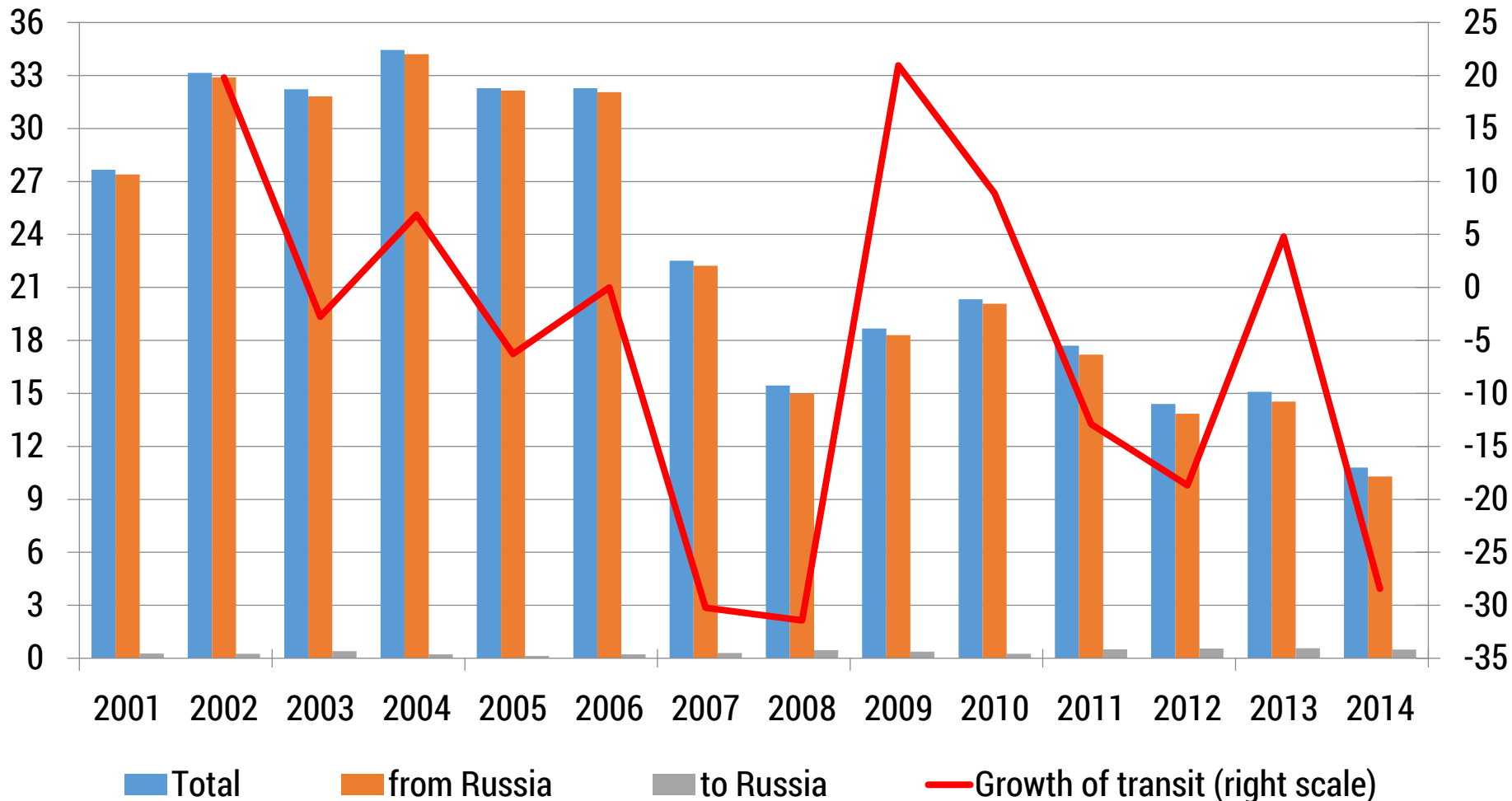
Imports by main product groups from Russia



Railway transit with Russia

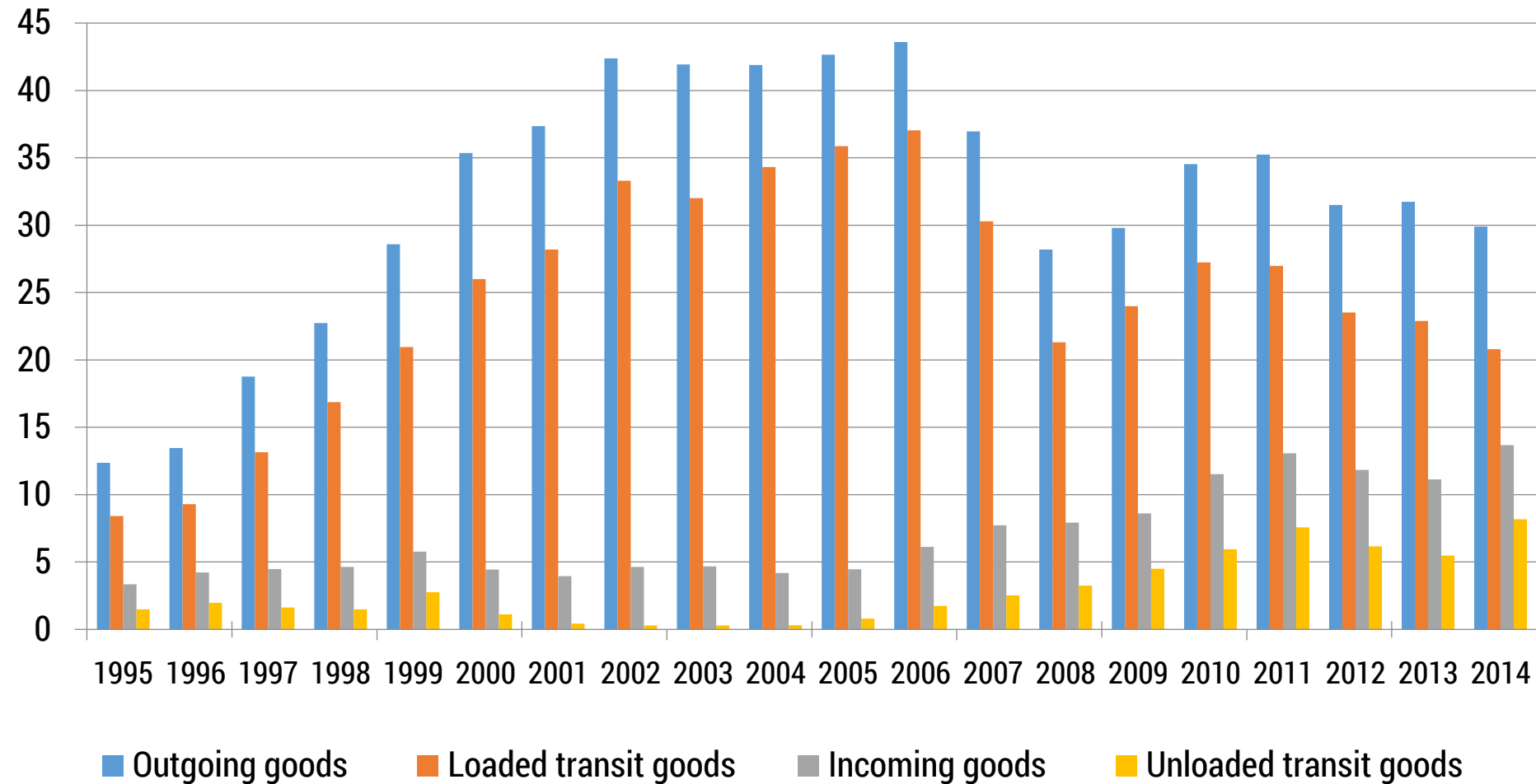
million tons

%



Transit trade: transport of goods through ports

million tons



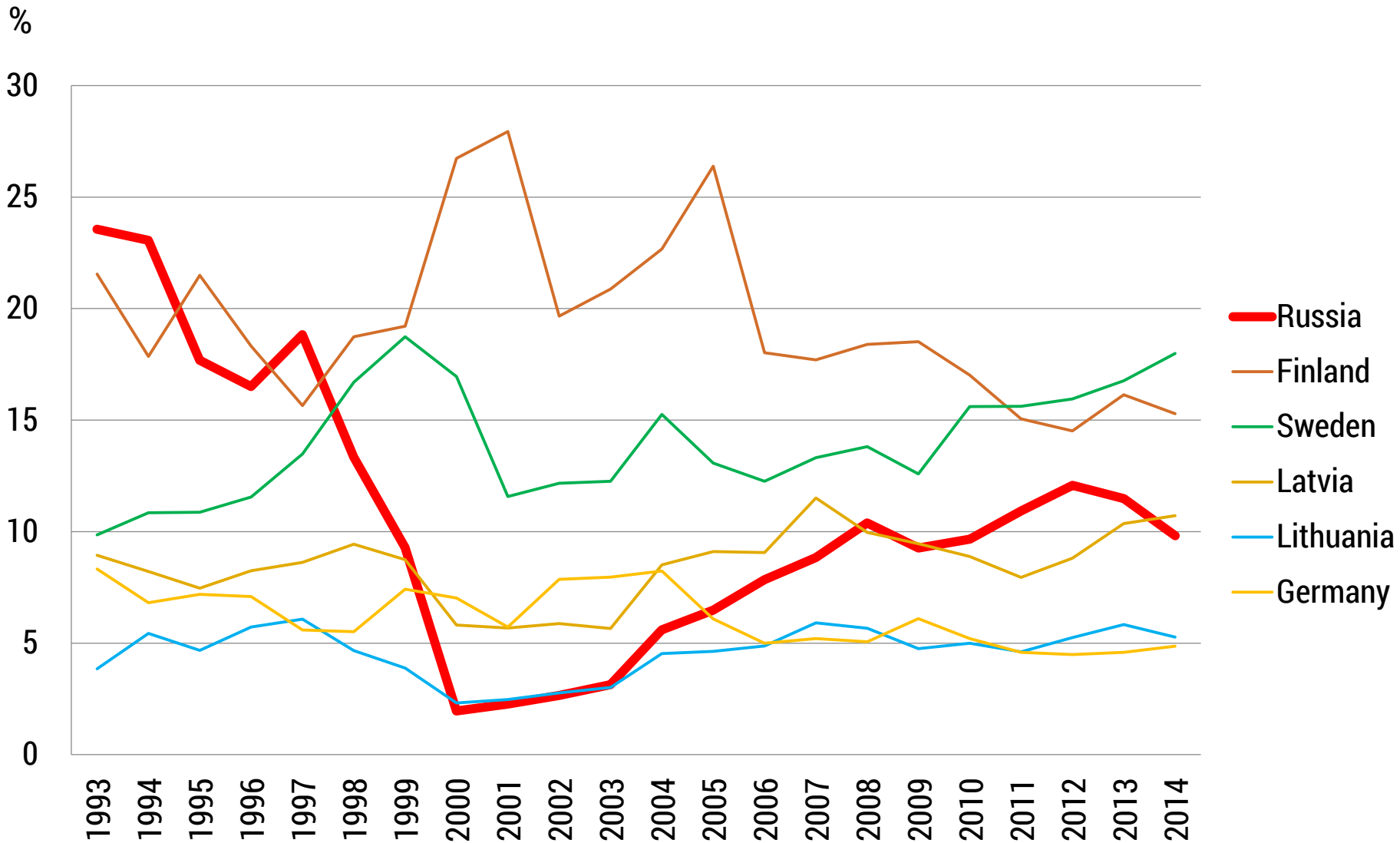
Explaining the dynamics of exports and imports

- Estonia pursued unilateral free trade policy without any trade barriers before the entry to the European Union in 2004.
- The EU membership led to the abolishment of the Russian „double tariffs“ on Estonian exports, and consequently, the lowering of transaction costs gave a boost to the Estonian exports to Russia.
- The relocation of the WW II memorial in 2007 impacted transit trade and Russian imports to Estonia rather than Estonian exports to Russia.
- Since 2008 Estonia has a positive trade balance with Russia.
- The rapid growth and volatility of imports of mineral products is explained by imports of low quality petrol (below 95),
- The mineral products are improved in Estonian and have been exported to destinations such as Nigeria and USA.
- This is heavily dependent on business models of a few firms.

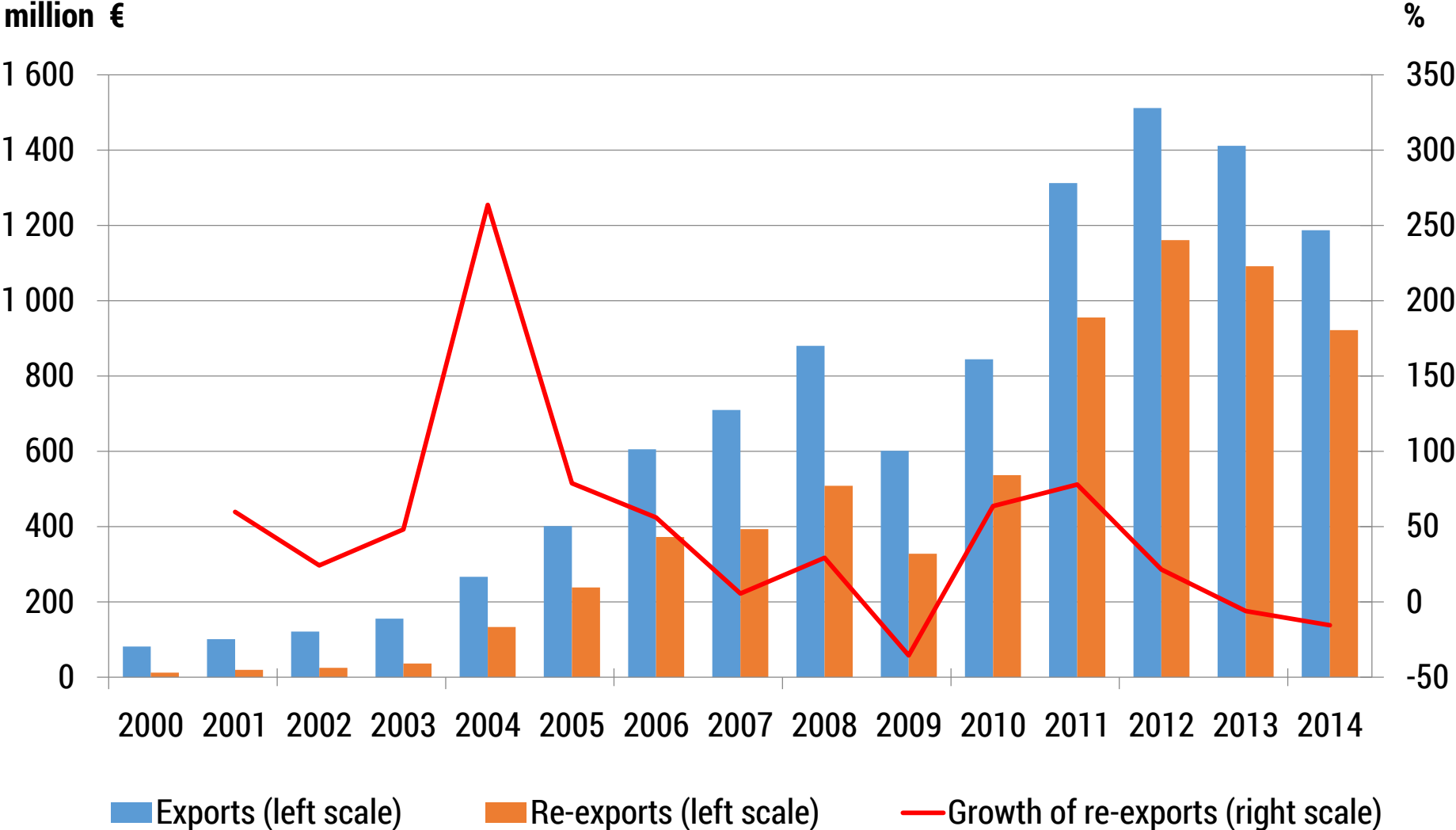
The impact of Russia's counter-sanctions

- After Estonia joined the EU exports increased to Russia primarily because of increasing role played by re-exports.
- Re-exports made up more than $\frac{3}{4}$ of Estonian exports to Russia in 2014.
- For instance, significant role is played by re-exports of machinery and equipment originating from UK through Estonia to Russia.
- Hence, trade statistics measuring exports on the basis of final value of goods overemphasize the importance of Russia as a export destination for the Estonian goods.
- The Russian countersanctions imposed in the summer of 2014 banned primarily exports of dairy and fish products from Estonia.
- However, Russian inspectors had subjected several most important Estonian dairy producers to sanitary inspections already in the beginning of 2014.
- These inspections effectively closed Russian market for dairy producers and forced to look for new export destinations.

Share of Russia in Estonia's exports



Estonian exports and re-exports to Russia

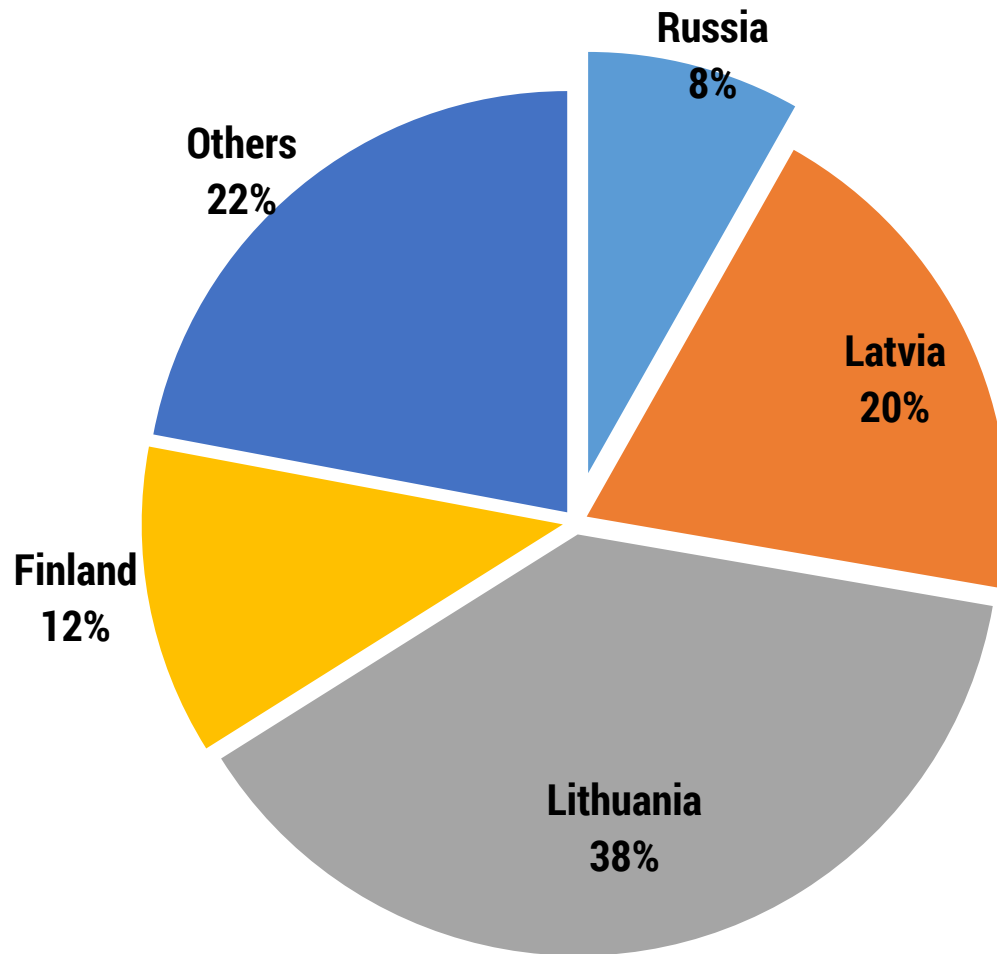


Source: Statistical Office of Estonia

Change in exports of dairy products

Export Destination	Export (mln €)		Change (%)
	2013	2014	2013/2014
Russia	49,6	17,0	-66
Latvia	52,0	40,5	-22
Lithuania	62,3	79,5	+28
Finland	26,6	24,7	-7
Others	18,8	45,7	+143
TOTAL	209,3 (32 countries)	207,4 (52 countries)	-1

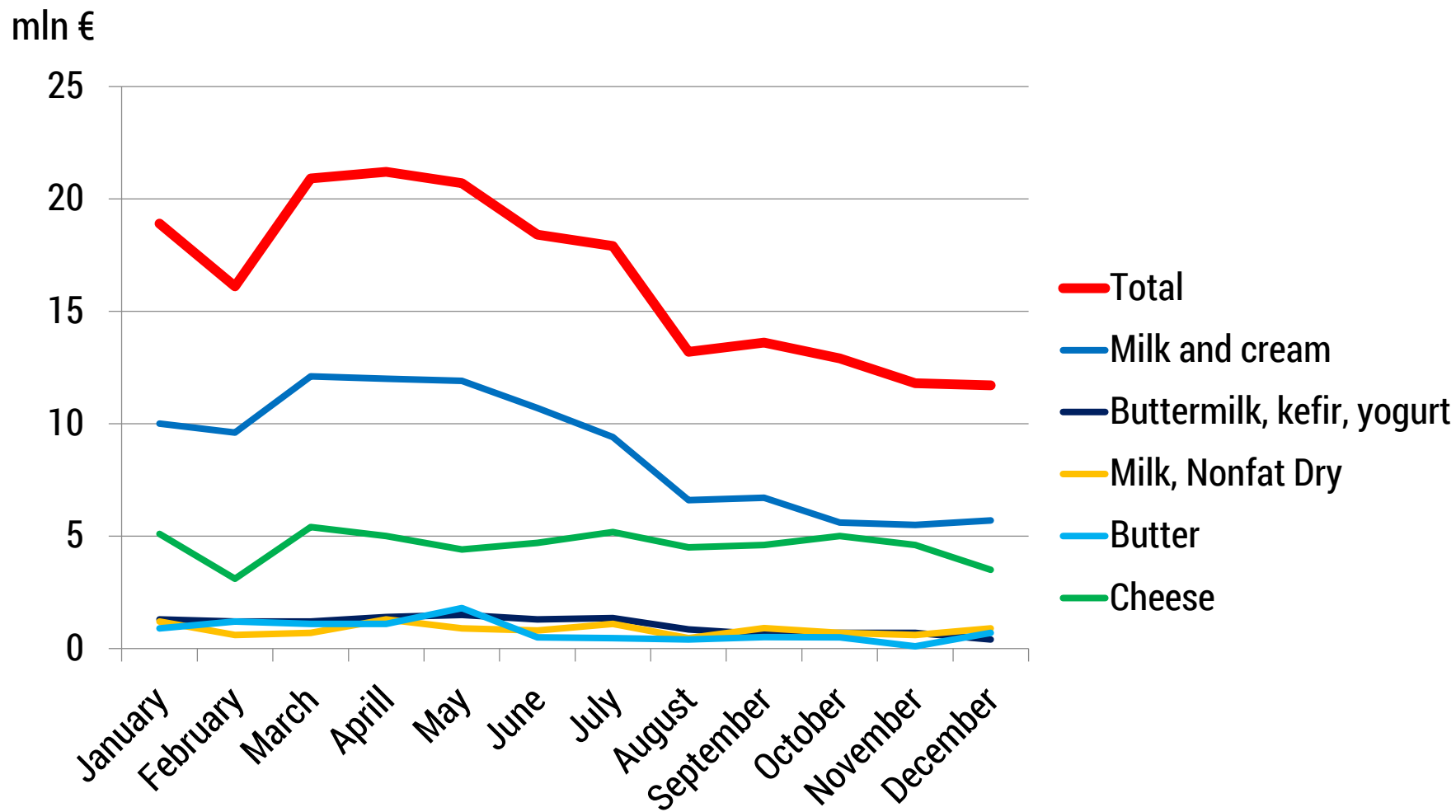
Distribution of exports of dairy products in 2014



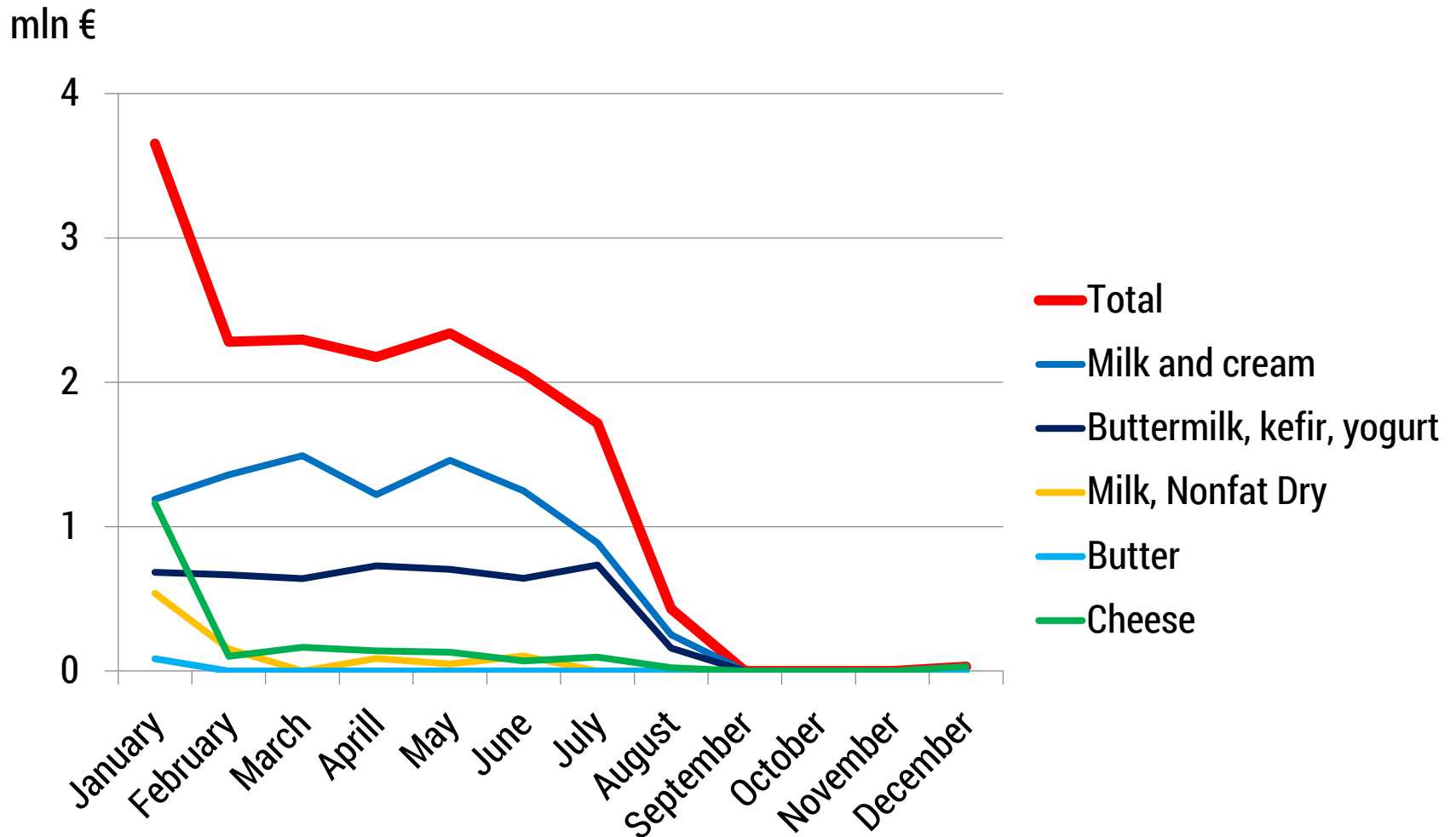
Other export destinations for dairy products

Export Partner	Export (mln €)		Change (%)
	2013	2014	2013/2014
Holland	4,3	13,1	+203
Italy	3,5	10,9	+211
Germany	4,6	5,8	+25
Greece	0,3	1,4	+313
Poland	1,0	1,4	+33
USA	1,0	1,3	+32
Thailand	0,2	1,0	+513
Malaysia	0	0,7	+
Saudi Arabia	0	0,7	+
Morocco	0,1	0,7	+347
Belgium	1,0	0,6	-38

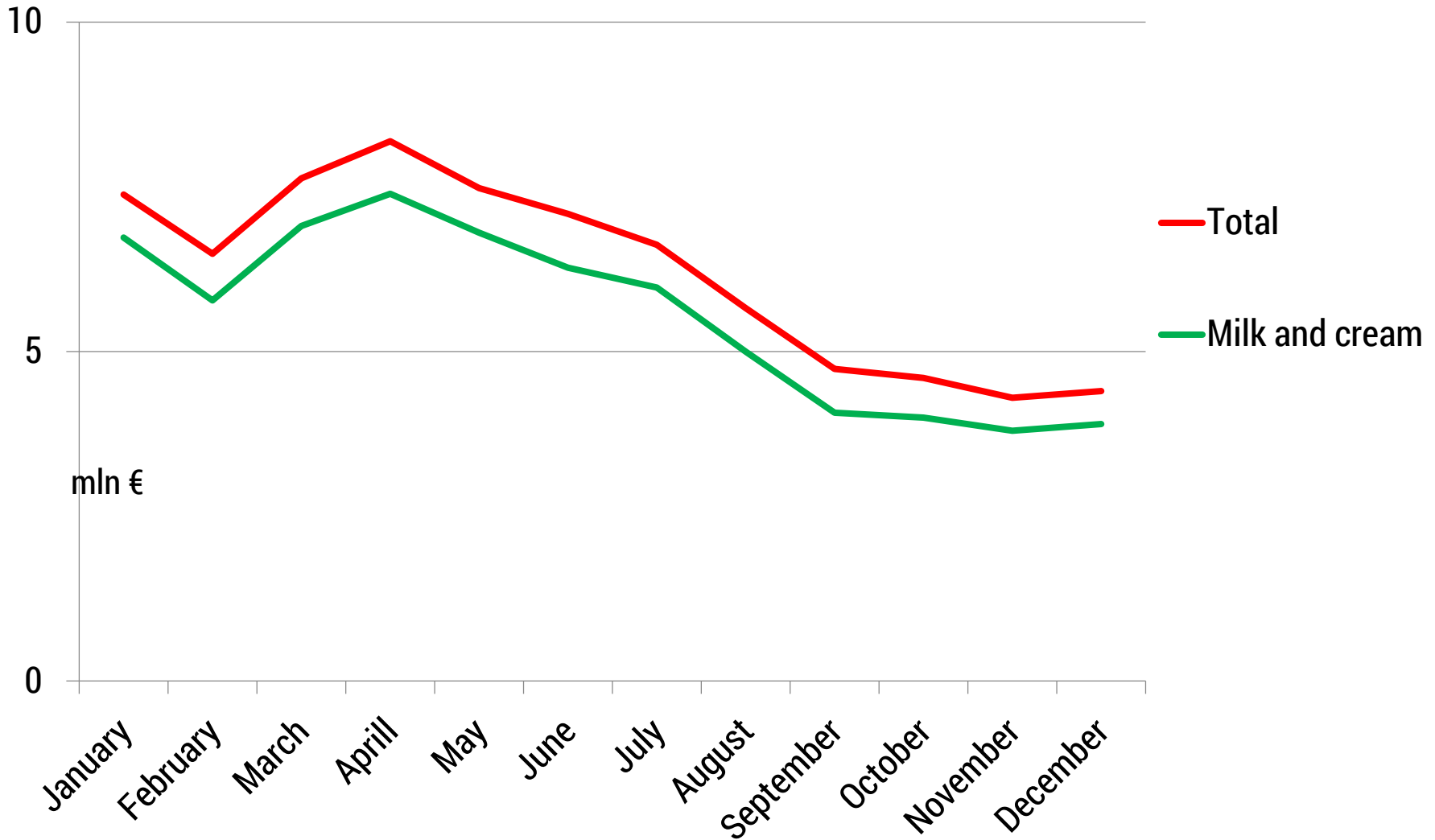
Export dynamics of dairy products in 2014



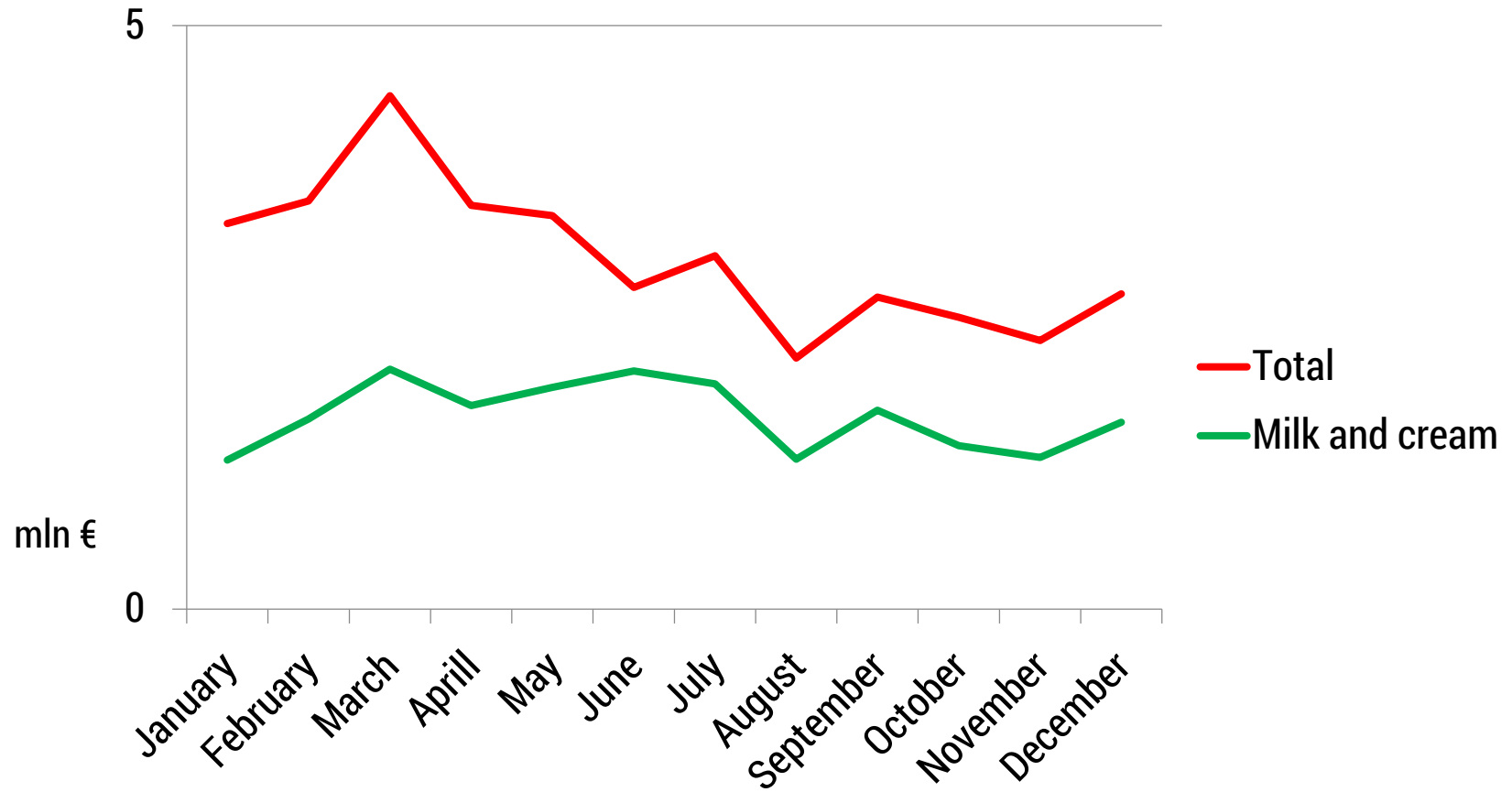
Exports of dairy products to Russia in 2014



Exports of dairy products to Lithuania in 2014



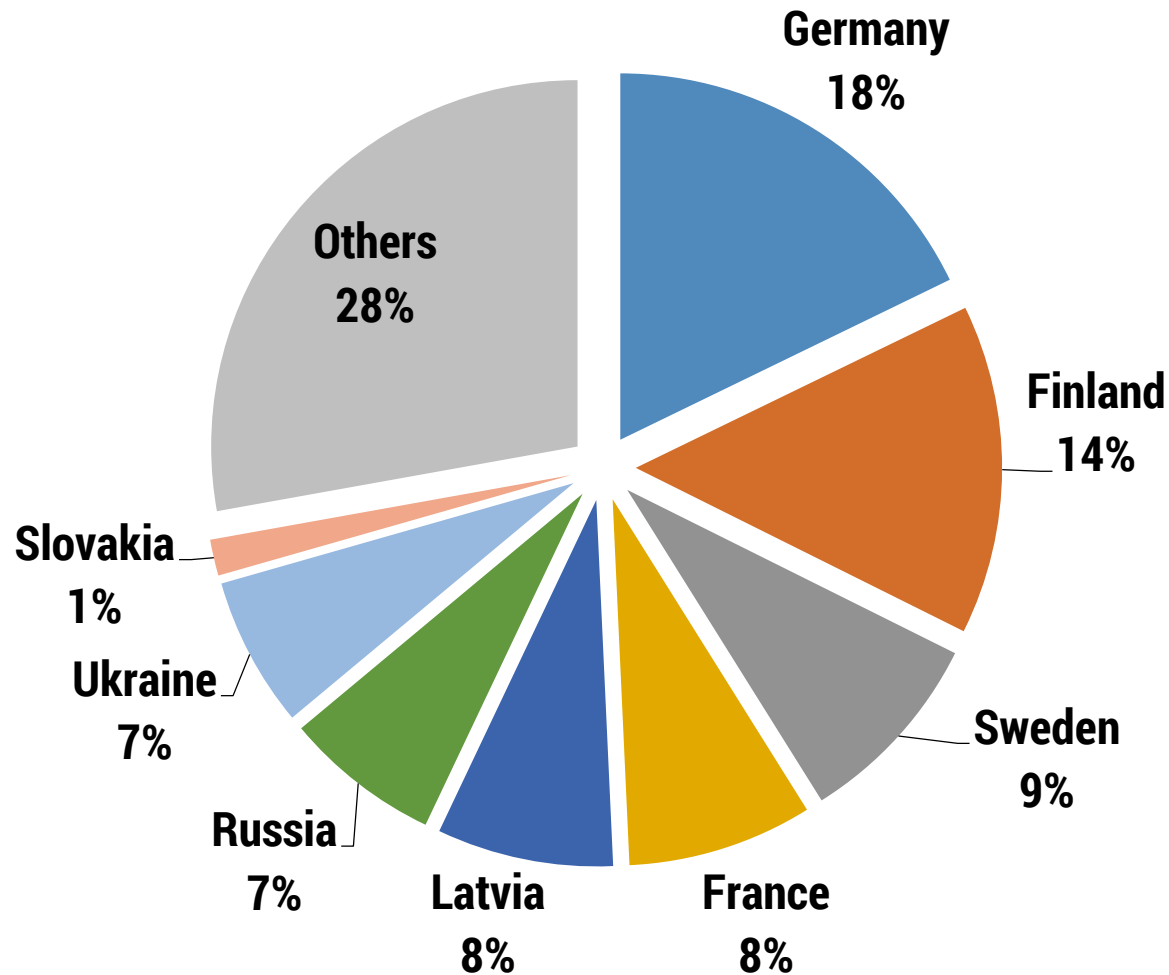
Exports of dairy products to Latvia in 2014



Change in exports of fish products

Export Partner	Export (mln €)		Change (%)
	2013	2014	2013/2014
Germany	22,1	27,9	+27
Finland	17,7	22,8	+29
Sweden	10,0	13,7	+37
France	5,1	12,8	+151
Latvia	17,0	12,2	-28
Russia	15,0	10,8	-28
Ukraine	10,2	10,4	+2
Slovakia	20,2	2,5	-88
Others	49,6	43,6	-12
TOTAL	166,9 (40 countries)	156,7 (53 countries)	-6

Distribution of exports of fish products in 2014



Other export destinations for fish products

Export Partner	Export (mln €)		Change (%)
	2013	2014	2013/2014
Sweden	10,0	13,7	+37
France	5,1	12,8	+151
Ukraine	10,2	10,4	+2
Iceland	6,9	6,4	-6
Holland	2,4	4,0	+67
Belarus	4,9	3,9	-19
Lithuania	3,1	3,5	+11
Denmark	7,7	3,3	-57
China	2,0	2,8	+40
Slovakia	20,2	2,5	-88
United Kingdom	1,8	1,9	+2

Conclusion

- The Russian countersanctions had a negative impact on the Estonian exports to the Russian market.
- The share of Russian market was 9.8 % in the total exports in 2014 in comparison with 11.5 % in 2013.
- The countersanctions affected primarily exports of dairy and fish products where exports to Russia declined 66 % and 28 % respectively.
- However, the economic impact of countersanctions was relatively insignificant.
- First, most of Estonian exports to Russia are re-exports where relatively little value added is being produced in Estonia.
- Second, Russian countersanctions were quite limited impacting primarily exports of dairy and fish products.
- Third, the decline in the total value of exports of dairy products was 1 % and 6 % in fish products in 2014 in comparison with 2013.
- This implies that Estonian entrepreneurs were able to find new markets for their products and diversify export destinations.
- Estonian firms started to export its dairy products to 20 new countries in 2014 increasing the total number of export destinations to 52 countries.



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Thank You!

meelis.kitsing@mkm.ee