

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Business Administration



Bachelor Thesis

**Problems of trade relations between the EU and the
Russian Federation**

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

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Business Administration

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Problems of trade relations between the EU and the Russian Federation

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Methodology

Description and analysis of general systematics of trade restrictions.

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The European Union and the Russian Federation in https://eeas.europa.eu/headquarters/headquarters-homepage/35939/european-union-and-russian-federation_en

The Global Sanctions Data Base in : <https://www.globalsanctionsdatabase.com/>

Trade Statistical Review 2021Yearbook, WTO 2021

Tyll, L.,Pernica, K., & Arltová, M.(2018).The impact of economic sanctions on Russian economy and the RUB/USD exchange rate. Journal of International Studies, 11(1), 21-33.

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Declaration

I declare that I have worked on my bachelor thesis titled "Problems of trade relations between the EU and the Russian Federation" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break any copyrights.

In Prague on 15.03.2023

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Problems of trade relations between the EU and the Russian Federation

Abstract

This bachelor thesis is devoted to the problems of trade relations between Russia and the European Union. The main objective of the thesis is to identify the key problems between these subjects in the economic and political spheres, taking into account the past and current development of trade. In addition, the work is aimed at exploring the causes and consequences of these problems. The first part summarizes the information characterizing the current Russia and the European Union in terms of the latest economic situation and their specifics. In addition, the work elaborates a literary review using professional articles by foreign authors who dealt with the issue of trade relations between Russia and the EU. In the practical part, the legal basis of relations between the selected entities and the conditions for joining the WTO are indicated. Subsequently, controversial aspects that influenced the trade relations of Russia and the EU, such as the Russo-Georgian war and the Russo-Ukrainian war, are examined. After that, an analysis of trade is carried out in the work, which allowed to identify the main problematic areas in economic relations between Russia and the EU. Among them are the contradictory actions of the Russian government, the dependence of both entities on energy supplies from Russia to the EU, Russia's military aggression, the influence of sanctions and counter-sanctions on the development of trade relations, Russia's non-use of WTO benefits, as well as the mismatch of the interests of some European states with those of the EU in relation to trade with Russia.

Keywords: economic situation, energy industry, European Union, military aggression, problems, Russia, sanctions, trade.

Problémy obchodních vztahů mezi EU a Ruskou federací

Abstrakt

Tato bakalářská práce se věnuje problémům obchodních vztahů mezi Ruskem a Evropskou unií. Hlavním cílem dané závěrečné práce je identifikace klíčových problémů mezi danými subjekty v ekonomické a politické sféře s přihlédnutím k minulému a současnému rozvoji obchodu. Navíc se práce zaměřuje na prozkoumání důvodů a důsledků těchto problémů. V první části jsou shrnuty informace charakterizující současné Rusko a Evropskou unii z hlediska aktuální ekonomické situace a jejich specifik. Dále je v práci zpracována literární rešerše s využitím odborných článků zahraničních autorů, kteří se zabývali problematikou obchodních vztahů mezi Ruskem a EU. V praktické části je uvedena právní báze vztahů mezi vybranými subjekty a podmínky vstupu do WTO. Následně jsou zkoumány kontroverzní aspekty, které ovlivnily obchodní vztahy Ruska a EU, jimiž jsou rusko-gruzínská válka a rusko-ukrajinská válka. Poté je v práci realizována analýza obchodu, která dovolila zjistit hlavní problematické oblasti v ekonomických vztazích mezi Ruskem a EU. Jsou mezi nimi rozporuplné kroky ruské vlády, závislost obou subjektů na energetických dodávkách z Ruska do EU, vojenská agrese Ruska, vliv sankcí a kontrasankcí na rozvoj obchodních vztahů, nevyužití Ruskem výhod WTO, ale také nesoulad zájmů některých evropských států se zájmy EU vůči obchodu s Ruskem.

Klíčová slova: ekonomická situace, energetický průmysl, Evropská unie, obchod, problémy, Rusko, sankce, vojenská agrese.

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1 Introduction

For a long time, Russia and the European Union have remained important trading partners, whose constant cooperation was of key importance for the successful economic development of both sides. This was evident in the example of a large number of areas in which the interests of both Russia and the EU met. We are talking primarily about the energy sector, the supply of chemicals, machinery, as well as vehicles, issues of scientific activity, internal and external security. The share of EU countries in Russia's foreign trade has remained significant for many years. At the same time, the EU countries were actively investing in the Russian Federation, being the largest direct investors for the Russian national economy.

Despite this, it is impossible not to notice the constant tension that accompanied the development of trade and economic relations between Russia and the EU throughout the period after Russia gained independence in the 90s. It was associated with several reasons, including the contradictory policy of the Russian government, Russia's unstable position on the world trade arena, the incompatibility of Russia's actions with the provisions of democratic institutions, but also the EU's dependence on certain product categories from Russia and in particular the dependence of some specific countries.

At the beginning of the last decade, even after Russia's military intervention in Georgia's affairs, trade relations between Russia and the EU sought to strengthen. This also confirmed the EU's desire to help Russia join the WTO. However, after the illegal and unjustified annexation of Crimea, as well as the provocation of the conflict in eastern Ukraine, relations between the countries deteriorated. This was negatively facilitated by the imposed sanctions and counter-sanctions. And yet it is worth noting that up to 2022, trade relations between Russia and the EU were developing again, albeit in slightly different directions.

In connection with such a remarkable development, it seems interesting to find out exactly which aspects became problematic in the trade relations of these two entities, as well as what events preceded this.

2 Objectives and Methodology

The specific objectives of the work and the methods by which it was intended to achieve these goals are described in the next two sub-chapters of this work.

2.1 Objectives

The main objective of this thesis is to identify key issues between the Russian Federation and the European Union in the economic and political spheres with a focus on past and present trade development. An additional objective of the work is also to investigate the reasons and consequences for both sides of the mutual relations.

2.2 Methodology

This paper is divided into theoretical and practical parts. The theoretical part contains key information related to the topic of the bachelor's work. Particular attention is paid to the basic characteristics of the two selected objects – Russia and the EU – as well as the trade relations between them. To begin with, the paper describes the current economic situation and trade structure in Russia and in the EU. When describing information about Russia, the political influence on the country's economy is also touched upon, while the EU's characteristics emphasize the organizational structure of the Union and the role of some member states in its economy.

Due to the fact that Russia and the EU are different as economic objects of research, different sources are used to describe them. Thus, the characteristics of the economic situation in Russia are based on electronic special articles by independent Russian media or foreign authors. Information from official state portals is used only for working with statistical macroeconomic data up to 2008. The description of the structure and organization of the EU is based on data obtained from the official website of the European Union. The economic situation is further analyzed on the basis of World Bank data.

The historical development of trade between Russia and the EU, as well as the topic of trade relations between them, is described using the method of literary review. The basic platform for analyzing these topics is scientific articles on the same topic, which were found using Google Scholar on the JStor and Research Gate websites. One of the main criteria for

selecting sources was the publication date of the article. It should not have been older than 2014, which allowed taking into account the impact of sanctions on trade between Russia and the EU.

The practical part of the work is implemented using time series analysis, where the subject of analysis is indicators related to international trade in Russia and in the EU, but also in particular between them. It should be noted that to describe changes in Russia's trade relations, as well as the causes and consequences of certain actions related to international trade, it was impossible to use official Russian websites. This is due to the fact that Russian media propaganda is trying to create an image of a situation that does not have a negative impact on the domestic economy. That is why the main sources of data for the practical part are statistics from The World Bank, Eurostat, UN Comtrade Database, and Global Sanctions Database (GSDB).

Separately, it is worth mentioning the problem associated with the search for statistical data on trade between Russia and the EU. After the EU imposed sanctions against the Russian Federation in 2022, a database with statistical indicators related to the import and export of goods between these two entities turned out to be unavailable. For this reason, some of the data was found not through the official Eurostat website, but through the Trade Map website, which provides statistics based on official bodies and in collaboration with Eurostat, UNCTAD, and WTO.

As for the time period, the analysis briefly touched on the 90s of the last century, but for the most part focused on the development of relations between Russia and the EU from 2000 to 2021. The structure of trade relations was dismantled in the period from 2012 to 2022, because earlier data were not available.

After the analysis of the main indicators related to trade between the EU and Russia was carried out, the key information was selected by the synthesis method, which made it possible to identify the main problems in this matter. All the results were described in the fifth chapter.

3 Literature Review

This part of the work is devoted to the synthesis of key information concerning Russia, the EU and their foreign economic relations. The sub-chapters also pay attention to the internal economic situation of the subjects. A literary review dedicated to the opinion of foreign authors on the causes of problems in trade between Russia and the EU was made separately.

3.1 Characteristic of Russia

Basic characteristics of Russia

The Russian Federation is a state that is located in the eastern part of Europe and the northern part of Asia. It is the largest country in the world by area occupies an area of 17.1 million km², and whose length from west to east exceeds 10 thousand km. Russia borders with 16 states, and the total length of the borders is about 61 thousand km (Leichtova, 2014).

From the point of view of the state system, Russia is a federal republic, the head of state is President Vladimir Putin, and the head of government is Prime Minister Mikhail Mishustin. The Russian president has broad powers and determines the main directions of the country's domestic and foreign policy. Despite the fact that Russia positions itself as a democratic state with a republican form of government, most foreign experts agree that the country's political system shows signs of an autocratic system (McFaul, 2021; Wills, 2020), and in some situations, a dictatorship (Fische, 2022; Galeotti, 2022).

After the collapse of the USSR, in the conditions of the comprehensive crisis of the 1990s, the main tasks of Russia's domestic policy were the creation of a new political system and the stabilization of the socio-economic situation in the country. By the beginning of the new century, state institutions had been strengthened in Russia, as well as the so-called vertical of power, which Vladimir Putin emphasized (Leichtova, 2014).

As for foreign policy, Russia's initial positioning in the world order after the collapse of the Soviet Union assumed its interaction with Western countries and integration into Western organizations. At the same time, Russia emphasized the development of new areas of cooperation in the post-Soviet space. Subsequently, they appeared in the creation of the Eurasian Customs Union (EACU), the Eurasian Economic Union (EAEU), and the

Collective Security Treaty Organization (CSTO) on security issues. At the same time, closer relations with other growing powers, in particular with China, developed through such bodies as the Shanghai Cooperation Organization (SCO) and BRICS.

Economic situation in Russia

By the end of the 80s of the 20th century, the USSR economy finally lost control due to internal imbalance and the inflexibility of planned management methods in the conditions of the socialist property system. After the collapse of the USSR, the system of functioning of the Russian economy changed in the 90s, but democratic institutions and a competitive environment were not formed (Kudrin, Gurvich, 2015). At the beginning of the new century, the situation had improved. Russia's economic development from 2001-2012 was generally characterized by growth at an average annual rate of 4.7 %, but this growth was extremely uneven (Static.government.ru, 2013).

Especially in the first decade of the new century, specifically in the period 2001-2008, Russia experienced an economic recovery after the end of the transformational crisis and recovery after the currency and budget crisis of 1998. The average annual GDP growth rate during this period was 6.6 %, which allowed it to reach the level of 1991 by 2006 in terms of the size of the economy, and by the end of the period to exceed it by 18 % (Static.government.ru, 2013).

At the same time, Russia reached a positive balance of payments and accumulated enough foreign exchange reserves. However, according to Movchan (2016), it is important to note that the impetus for economic growth was provided by extremely favorable external conditions. The global economy demonstrated dynamic development in almost all regions, and a high level of global liquidity ensured the low costs of loans, capital flow to emerging markets, and rising commodity prices.

The next period in the Russian economy was characterized by the consequences of the global financial crisis of 2008-2009 and the post-crisis economic recovery, which lasted until 2011. During the global economic crisis, the Russian economy demonstrated the greatest degree of cyclicity among the economies of the Big Twenty. By mid-2009, GDP had declined by 10.2 % compared to the peak reached in mid-2008. This was primarily due to a drop in investment demand by more than 20 % and a sharp reduction in investment in stocks. Such a sharp change in economic dynamics confirmed the continued dependence of

growth on sharp fluctuations in oil prices, which decreased by more than 2 times from the middle to the end of 2008 (Static.government.ru, 2013).

In general, by 2008, Russia's budget consisted of 65-70 % (directly or indirectly) of revenues from the export of hydrocarbons. At the same time, the correlation of GDP growth rates, federal budget revenues, and reserves with changes in oil prices reached 90-95 %. Against this background, the ruble, due to the massive influx of petrodollars, turned out to be significantly overvalued, which proves that the Russian economy has survived the Dutch disease (Movchan, 2016).

But as Janičko, Maleček, and Janičko (2021) add, at the beginning of the new century, Russia began to be perceived as a normally functioning economy due to general institutional stabilization and the growing openness of the economy to international trade and investment inflows. And yet it is worth noting that high oil prices in the period 2001-2008 were the main factor that contributed to the economic growth of the country. This once again confirmed Russia's high dependence on minerals and raw materials.

Movchan (2016) agrees with this opinion as well. According to the author, the increase in oil prices at the beginning of the century created the effect of the rapid growth of budget revenues. Against this background, the government decided to abandon the stimulation of the process of expanding the tax base. Moreover, thanks to the ability to control oil flows, the government consolidated indirect control over the hydrocarbon industry, banking business, and, through them, over the entire economic and political life of the country. This has made the development of any non-oil business, as well as economic and budgetary decisions, ineffective.

As for Janičko, Maleček, and Janičko (2021), high oil prices helped Russia recover from the financial crisis between 2010 and 2013. But according to Kudrin and Gurvich (2015), at that time there were other objective signs of deterioration of Russia's economic prospects. In particular, there was a decrease in the growth rate of investments in fixed assets, as well as a capital outflow in the period from 2009 to 2013.

In 2014, the Russian economy suffered greatly from the sanctions that were imposed after the annexation of Crimea and because of the situation in eastern Ukraine. The EU sanctions were primarily aimed at the banking sector and access to technology by oil and gas companies. In response, Russia imposed an embargo on agricultural products from

Western countries and began to pursue an active policy of import substitution (Gurvich, Prilepskiy, 2015).

Since 2014, the pace of economic growth in Russia has slowed down significantly, which, in addition to external factors, was due to a decrease in the number of the able-bodied population. At the same time, the economy was negatively affected by the poor investment climate, problems with the diversification of commodity flows, and the deterioration of relations with the West, primarily with the EU and the United States (Dabrowski, 2019).

3.2 Characteristic of the European union

Basic characteristics of the EU

Initially, in 1952, the European Union emerged as the European Coal and Steel Community (ECUS). It consisted of six founding countries: France, Germany, Italy, Belgium, the Netherlands, and Luxembourg. The same countries formed the European Economic Community (EEC) and the European Atomic Energy Community (EURATOM) in 1958. However, the European Community was originally designed for the whole of Europe, so subsequently the number of its members increased from 6 to 27 members. The European Union (EU) has been functioning in its current format since 1993 (Dedman, 2009).

The EU is based on five principles that are fundamental to the cooperation of all 27 different states in many respects. The EU makes decisions based on democratic values and at the same time ensures that the interests of smaller and weaker states are properly taken into account. Five different principles are fundamental for the EU. These are common values, supranationality, digressive proportionality, solidarity, and subsidiarity. The common values of the EU include freedom, democracy, respect for human rights and fundamental freedoms, as well as respect for the principles of the rule of law (Dedman, 2009).

The principle of supranationality is a fundamental component of the European Union. This means that the member States of the European Union have adopted a decision stipulated in the treaty that in certain areas of political activity states renounce their sovereignty and transfer the right to make decisions and legislate to the European Union or do it jointly with it. Thus, the rejection of national sovereignty is compensated by gaining influence and power throughout Europe. Such a system functions only when all countries

are ready to make concessions, so compromise plays an important role for the very existence in the EU (European-union.europa.eu, 2023).

The structure of the EU cannot be compared with the structure of the nation-state since it is a *sui generis* construction. It means the union of states and the union of peoples at the same time. The institutional structure of the EU reflects this feature. Institutions representing either one side (the union of states) or the other (the union of peoples) interact in the EU. They are supported by the European Commission, whose task is to promote the European process and monitor compliance with the agreements concluded (European-union.europa.eu, 2023).

States are represented by the Council but here it is necessary to distinguish between the European Council and the Council of the European Union because they have different compositions and political functions. The European Council consists of 27 heads of state and government of the member states and the president of the European Commission. This institute sets the general direction of the development of the EU and makes fundamental decisions at least four times a year (European-union.europa.eu, 2023).

The Council of the European Union, on the contrary, consists of 27 relevant ministers of the Member States. It has nine different compositions, which vary depending on discussion. Like the European Parliament, the Council of the European Union is a European legislative institute that can adopt directives or European laws. The European Commission is the executive institute of the European Union. It consists of 27 members; each country has its member here. The Commission is a collegial institute headed by the President of the Commission and it makes collective decisions on all issues. It is clear that there are often disagreements in the EU about what corresponds to European law and what is a violation of it. In disputable cases, decisions are made by the European Court of Justice (ECJ). The European Central Bank (ECB) is responsible for the monetary policy of the eurozone countries, which determines the money supply and the level of interest rates (European-union.europa.eu, 2023).

Economic situation and trade structure in the EU

The integration of European countries within the EU had positive consequences, which were expressed by an increase in the size of the common market, the emergence of healthy competition between countries, ensuring better trade conditions, as well as the spread

of advanced technologies since the beginning of the new century. However, despite the desire to unite and erase borders, EU member states have their own peculiarities. This applies not only to the cultural and national aspects but also to the economic sphere because their economic indicators often differ greatly from each other (Dedman, 2009).

From the point of view of economic development, the economic structure, and the scale of economic activity of the EU, member states can be divided into several groups. First of all, these are large industrially highly developed countries that reflect the economic power of the region and together concentrate the largest percentage of the EU's GDP, such as Germany, France, Italy, Spain, and previously Great Britain. These powers largely determine the general trends of economic and socio-political development of the entire region. Other states belong to small, industrialized countries. The special place occupied by small countries in the EU is determined by the high level of specialization in the production of technically complex, high-quality products.

The EU countries are quite different from each other in terms of the level of economic development, as well as the structure of the economy. For example, in large Western European countries, the industrial sector is developed, southern European countries are distinguished by more developed agriculture, and in small states the service sector often dominates.

Even though some macroeconomic indicators declined in the wake of the financial crisis, the EU economy in the first decade of the new century was marked by positive macroeconomic indicators. GDP growth rates were unstable and ranged from 3.9 % in 2000 to -4.3 % in 2009. However, the inflation rate remained at 2 %, with the exception of its sharp increase in 2008 to 3.7 % (Data.worldbank.org, 2023). Despite this, the average GDP per capita in the EU remained high, which attributed this integration group of countries to the most developed part of the world with a high standard of living.

In 2009-2012, the EU economy experienced a prolonged recession, which was the result of the negative impact of external economic shocks. In 2013, an important event for the economy was the inclusion of Croatia into the European Union, which increased the final GDP figure. However, despite the changes in the structure, Germany remained the economic leader, whose share of the EU's GDP structure exceeded 20 % (Data.worldbank.org, 2023).

In addition, in 2013, more than half of the countries of the European Union had negative GDP growth indicators. Only Romania was distinguished by a record indicator

(3.5 %). Among the major countries, the UK, which at that time was part of the EU, achieved a high indicator (1,7 %). The most lagging economy was Greece, whose GDP reached a recession of 3.9 % (Data.worldbank.org, 2023). Despite uneven economic growth within the EU, a gradual increase in the employment rate has been seen since 2015.

In general, from 2014 to 2019, the EU economy showed moderate and steady GDP growth, which was disrupted by the COVID-19 pandemic in 2020 (Data.worldbank.org, 2023). By 2021, the economy managed to recover, but the consequences of the pandemic were exacerbated by the humanitarian crisis due to the military conflict in Ukraine in 2022.

3.3 Literature review of trade relations between Russia and the EU

The topic of trade relations between Russia and the EU has been dealt with by several foreign authors who express different points of view on the causes and consequences of this development, as well as factors that were of key importance to it.

In the article named „*Too much of a good thing? Russia-EU international trade relations at times of war*“ Tajoli (2022) examines the development of Russia's position in the trading system concerning the EU. The main point of this study is that Russia did not use its accession to the WTO as a chance to develop and diversify trade flows. Moreover, it has focused even more on the supply of fuel and raw materials, which has increased its dependence on the importer represented by the EU.

After a long process of economic transformation, Russia completed the process of joining the WTO in 2012, which began in the mid-90s. However, access to foreign markets has not significantly changed its trading position. This was hindered by the weakness of domestic institutions, a high level of corruption, and a shortage of foreign capital. A significant role was also played by the policy of active import substitution after the annexation of Crimea in 2014, which practically leveled the benefits of joining the WTO (Tajoli, 2022).

According to Tajoli (2022), a separate and important factor is that the Russian economy is sensitive even to small fluctuations in oil prices, which is confirmed by the macroeconomic model developed by Benedictow et al. (2013). In order to assess the result of Russia's accession to the WTO, the author uses World Bank data, UNCTAD stats, the OECD database, and the Balassa index, which confirms minor changes in the structure of

the country's international trade since the late 90s (the only exception is wheat). It is worth noting that Russia has also not used its potential in the production and import of such important products as fertilizers, as well as palladium, vanadium, and cobalt, which are actively used in high-tech fields, and the demand for which is growing even more now.

As for the very potential for the development of trade relations between Russia and the EU, Tajoli (2022) uses the node's eigenvector centrality to measure it. This metric determines a country's trade ties and the strength of these ties in terms of the value of trade, considering the overall trade situation in the world. Despite the expectations of a high connection between Russia and the EU, which can be explained by the geographical location and the relationships with some EU countries (in particular Germany), this connection is small and rests only on the export of energy and fuel. The EU also noticed a certain bias in the field of exported products, which also affected the asymmetry in trade relations.

Tajoli (2022) speaks that, on the one hand, the Russian state has not made efforts to use its advantageous geographical position, increase the welfare of the population and use the trade potential. On the other hand, Russia's integration into the European Single Market has made it possible to achieve relative stability in trade relations. However, it is obvious that Russia's foreign policy and the EU's increasing dependence on Russian fuel have led to an increase in tension between these trading agents.

Just like Tajoli (2022), in the article *“The evaluation of EU trade with Russia based on the analysis of selected indices”* Kašťáková (2017) speaks about the great dependence on trade relations between Russia and the European Union even after the implementation of sanctions in 2014-2015. In her opinion, given the structure of the EU economy, the cessation or reduction of imports from Russia was unlikely. However, as can be seen now, the situation has changed dramatically after the beginning of global military aggression by Russia against Ukraine in 2022. It is still fascinating to find out the reasons why the author considered this situation impossible.

To confirm the high dependence, Kašťáková (2017) uses the index of trade intensity in the period from 2005 to 2016. It should be noted right away that her forecasts were based solely on the experience of relations between Russia and the EU. The author notices a decline in Russia's position as a trading partner of the EU during the selected period, as evidenced by import and export data on the Eurostat portal. If in 2005 Russia was the third largest importer and exporter of the EU, then in 2016 it moved to the fifth position in the field of

exports with a share of 4.1 % and to the fourth position in the field of imports with a share of 7.0 %.

Despite the dependence of the EU on raw materials and energy supplies from Russia in the analyzed period, according to Kašťáková (2017), the EU had a comparative advantage in some groups of goods, in particular, due to the diversification of goods exported from the EU, as well as their higher added value. This was confirmed by the logarithmic formula for calculating comparative advantages proposed by the author, which showed a strong asymmetry in foreign trade between the EU and Russia. The EU has advantages in almost all product groups with the exception of raw materials and mineral fuels.

In the article „*The impact of the Russian Aggression against Ukraine on Russia-EU Trade*“ Estrada and Koutronas (2022) also focus on the decline in trade flows between Russia and the EU in the period from 2011 to 2021, as well as on the unused advantages regarding the country's accession to the WTO (see Image 1). In this regard, their opinion concurs with the opinion of Tajoli (2022). Estrada and Koutronas (2022) emphasize that the Russian policy of import substitution contradicts the norms and policies of the WTO.

In response, the EU launched six disputes against import restrictions, which eventually led to the imposition of sanctions. They are related to the collection of duties on certain goods (vehicles, imported products), anti-dumping policy in relation to small-sized transport, timber exports, meat embargoes, etc. It was these events that provoked the greatest tension between Russia and the EU at that time and led to the expected decline in the share of international trade. Gontmakher (2021) also says that the 2014 sanctions for the first time called into question the EU's decision to develop such dependent relations with Russia in the long term.

Schmidt-Felzmann (2014) examines the reason for the deterioration of trade relations between Russia and the EU in terms of how it was affected by the EU member states in the article “*Is the EU's failed relationship with Russia the member states' fault?*”. The author says that even before the annexation of Crimea in 2014, it was possible to notice the tendency of some EU countries to give priority to bilateral relations with Russia without considering its influence on the EU. Russia, in turn, could use its connection with some EU countries to put pressure on other EU countries regarding issues that are important to it. This means that „*the EU's ability to capitalize on its strengths in negotiations is weakened by the diversity of interests that have to be reconciled within the EU*“ (Schmidt-Felzmann, 2014, p. 40).

Thus, the key point of the study is the functioning of national foreign policy as a dividing force, as well as a catalyst in relations between Russia and the EU.

The same author also notes such an important aspect as the deep faith of EU representatives in the power of cooperation. It, in turn, was also intensified by the fear of a possible military confrontation with Russia. Excessive and misplaced faith in diplomacy eventually made Russia even more immune to its demands (as well as to warnings about military aggression against its neighbors) (Schmidt-Felzmann, 2014).

As evidence of the influence of the national policies of the EU member states on trade relations with Russia, Schmidt-Felzmann (2014) focuses on Russia's historical ties with Germany, as well as with Eastern European and northern countries that were influenced by communist doctrine in the last century. France and Italy also occupied an important place in Russia's trade policy, as indicated in three Russian foreign policy doctrines (in 2000, 2008, and 2013).

The Netherlands and Great Britain also remained strategically important partners of Russia from the beginning of the noughties to the annexation of Crimea. It is also noteworthy that after two high-profile cases involving the deaths of critics of the Russian regime living in the UK – Alexander Litvinenko and Boris Berezovsky – the tension between the two countries intensified. However, given the role of British direct investment and the influx of Russian investment into the UK, their relationship has retained a special status (Schmidt-Felzmann, 2014).

Dutch-Russian political relations, in turn, had a more negatively colored character due to the Dutch government's criticism of Russia's actions in relation to two terrorist acts in the early noughties and after the crash of the Malaysian plane in 2014. However, the Netherlands' dependence on Russian energy resources did not allow the country to express a tougher position regarding Russian actions in Ukraine in 2014 (Schmidt-Felzmann, 2014). Nevertheless, the growing number of disputes between EU member states and Russia have shown that systematic violations of treaties by Russia could be more effectively resolved at the EU level than at the level of each country. An even greater effect could be achieved if the EU, as a political and economic entity, had a commander-in-chief capable of making decisions quickly and acting at a long-term strategic level.

In the article „*The analysis of trade relations of Russia with Germany and France*“ Smirnov et al. (2019) also emphasize the significant role of some European countries in the

development of trade relations between Russia and the EU. Among them are Germany and France, and the volume of trade they conducted in the cluster of minerals and energy formed the basis for the development of trade relations between EU countries. The authors draw these conclusions using hierarchical cluster analysis (namely squared Euclidean distance) and its subsequent correlation with respect to selected measurement objects.

In general, the study showed the expected results. In 2019, among the EU countries, Germany was the leader in the commodity cluster of fuels, and mineral oils, as well as in the saturation of commodity clusters in general. Commodity relations between Russia and France have also been based on oil and gas imports for a long time. According to Smirnov et al. (2019), the dependence of Germany and France on Russia could decrease only if both countries find a sustainable alternative option.

As a separate factor that has also had a strong influence on the development of relations between Russia and the EU over the past 15 years, it should be noted the growing importance of China in Russian trade. This is stated by Falkowski (2019) in the article *“Trade interdependence between Russia vs. the European Union and China within the context of the competitiveness of the Russian economy”*. The author says that for countries whose economies are characterized by Dutch disease, the presence, and consolidation of competitive advantages in the trading market is a very important aspect. The Russian economy is among these countries, as Tajoli (2022) also writes about.

For this reason, Falkowski (2019) seeks to determine the trade interdependence between Russia and the EU, as well as Russia and China, because from 2011 to 2018 the number of articles about these relations has been constantly growing. The author also wanted to find out to what extent the trade structure between the selected objects reflects Russia's competitiveness in terms of international trade.

Just like Tajoli (2022), in the research he used the Balassa index, which allows an analysis of comparative advantages in international trade. The results of the analysis showed that over the selected period, China's role in Russia's foreign trade has increased. The reason for this was the deterioration of relations between Russia and the EU after the imposition of sanctions in 2014 and the decline in oil prices on international markets. Thus, Russia, whose competitive advantage consisted of the supply of raw materials and energy, further limited the possibilities of its trade diversification on the international market.

4 Practical Part

The basis of the practical part is our own analysis of trade turnover between Russia and the EU in the selected period. This part of the work is also devoted to the description of trade and economic relations between them and the contradictory moments that made trade cooperation difficult.

4.1 Legal basis of EU-Russia relations

Russia remained an important trading partner of the EU until the events of February 24, 2022, when Russian troops invaded the territory of Ukraine. The legal basis for the trade relations between these two entities consisted of the following. Firstly, external action is described in title V of the Treaty on the European Union. Furthermore, it concerns trade and international relations under the Treaty on the Functioning of the European Union. Thirdly, it is a bilateral relationship based on a Partnership and Cooperation Agreement (PCA) (Europarl.Europa.eu, 2023).

The PCA is an agreement on trade relations between the EU and Russia, which was signed in 1994, and entered into force on December 1, 1997, for a period of 10 years. Subsequently, since 2007, it has been decided to renew the agreement every year. In the summer of 2008, both sides also started discussing a new agreement, which was supposed to replace the previous one and update it. For almost two years, several rounds of negotiations have taken place, within the framework of which the basis for relations between the EU and Russia was discussed. It included not only the legal obligations of both sides but also issues of economic cooperation, primarily in the energy field, as well as in the field of investment and trade (Eib.org, 2023).

According to the PCA (Eur-lex.Europa.eu, 2016), the main objectives of the partnership between the EU and Russia were the following:

- provision an appropriate framework for political dialogue, contributing to the development of close relations between the Parties in this area;
- promoting trade, investment, and harmonious economic relations between the Parties based on the principles of a market economy, but also promoting the sustainable development of the Parties;

- strengthening political and economic freedoms;
- supporting Russia's efforts to strengthen its democracy, develop its economy and complete the transition to a market economy;
- providing a basis for economic, social, financial, and cultural cooperation based on the principles of mutual benefit, mutual responsibility, and mutual support;
- encouraging activities of mutual interest;
- providing an appropriate framework for gradual integration between Russia and the wider area of cooperation in Europe;
- creation of the necessary conditions for the establishment in the future of a free trade zone between Russia and the Union, covering mainly all trade in goods between them, as well as conditions for the realization of the freedom to establish companies, cross-border trade in services, and capital movement.

Apart from the fact that both sides committed to long-term cooperation with a large number of goals, it is also important to note that the agreement covered many areas. These included business and investment, financial and legislative cooperation, trade in goods and services, education and training, energy, nuclear and space technologies, transport, tourism, regional development, etc. (Eur-lex.Europa.eu, 2016).

Within the framework of this agreement, Russia sought to develop a close partnership with the EU, which was based on the principles of equality, mutual benefit, as well as mutual respect for interests. With the enlargement of the EU in 2004, 2007, and 2013, this desire has only intensified. The PCA agreement has become a kind of first brick for building long-term relations, including the prospect of creating a free trade zone. However, both Russia and the EU have undergone significant changes since the signing of the first PCA agreement. That is why both sides sought to reflect these changes in the new agreement (RussiaEU.ru, 2023).

As the new agreement on trade and economic cooperation between Russia and the EU was being discussed, by 2012 Russia had joined the WTO. The European Union openly supported this initiative on the part of Russia, as it led to mutual benefits for both sides. However, the situation changed dramatically in 2014, when Russia showed demonstrative

support for Ukrainian rebels and illegally annexed Crimea. In this regard, EU-Russia bilateral relations were revised, which led to a reduction in regular summits and, in particular, discussions on a new treaty that was supposed to replace the PCA agreement (Europarl.Europa.eu, 2023).

The development of trade relations resulted in the imposition of sanctions against Russia in connection with the attempt to destabilize Ukraine. This greatly affected not only political, but also economic relations between the subjects, and also nullified a number of agreements concluded in the past. After Russia invaded Ukraine in 2022, all trade relations between the EU and Russia were terminated (Europarl.Europa.eu, 2023).

4.2 WTO-based partnership

In 1995, Russia began negotiations on its accession to the WTO, and at first, the focus was on assessing whether its trade and political regime complied with the WTO's rules. In 1998, Russia provided proposals on access to the market for goods and on the level of support for agriculture, after which negotiations began at the bilateral level. Since 2000, negotiations have been taking place on all issues of Russia's accession to the WTO. The negotiations were held on the basis of documents approved by the Government of the Russian Federation and were conducted in four directions:

- Tariff issues. The purpose of this direction was to determine the maximum level of import customs duty rates for the entire Commodity nomenclature of foreign economic activity.
- Agricultural issues. Within the framework of this topic, there was a discussion of the permissible volumes of domestic state support for the agricultural sector, as well as the level of export subsidies for agricultural goods and food. Negotiations in this area were complex.
- Access to the service market. Within the framework of this direction, it was necessary to agree on the terms of access to foreign services and service providers to the Russian market.

- Systemic issues. The task was to determine the measures that Russia will take in the field of legislation to fulfill its obligations as a WTO member (Gnevko, Shanina, and Kirsanov, 2016).

Representatives of the Russian business community actively participated in the discussion of the Russian position in the negotiations on accession to the WTO. Since 2000, representatives of the Ministry of Economic Development have held several hundred meetings on these issues with various unions of exporters, importers, and associations of commodity producers. The negotiations were completed only in November 2011, when the working group submitted for consideration a package of documents on the accession of the Russian Federation to the WTO. It was approved on December 16 of the same year, and subsequently, the organization gave Russia a deadline for the ratification of the package of documents by the Russian parliament (Gnevko, Shanina, and Kirsanov, 2016).

In July 2012, the State Duma of the Russian Federation approved the Protocol on Russia's Accession to the World Trade Organization, the Federation Council of the Russian Federation ratified it, and the President of Russia signed the relevant federal law. The result of the negotiation process was Russia's accession to the WTO, which became its 156 members (WTO.org, 2023).

Russia's accession to the WTO played a crucial role due to the negative state of the Russian economy after the 2008 financial crisis. For Russia to have a positive trade balance, it would be necessary to produce and export goods with high-added value. This was possible only thanks to serious economic reforms that would allow Russia to move away from the model of exploitation of natural resources. WTO membership could contribute to a change in Russia's economic model, which was one of the reasons for its proactive actions in this area.

Portansky (2011) also notes some other reasons for Russia to access the WTO. Firstly, membership provided Russia with free access to foreign markets without discrimination and reduced restrictive measures against Russian exporters and manufacturers. Secondly, the terms of membership could not harm domestic producers, in particular, due to many years of negotiations. Third, WTO membership would provide Russia with equal rights to other entities at the level of international trade.

As for Lechtman (2012), the EU also took into account both the economic and political aspects of the benefits that not only the EU as a whole but also each EU member state individually will receive if Russia joins the WTO. Thus, the rules of world trade will be applied to Russia, which will speed up the process of conflict resolution. Further, joining the WTO would be a logical step towards resolving issues related to the extension of the PCA agreement after its termination in 2007. After all, one of the motives of the EU was to create opportunities for cooperation between Russia and the EU in the post-Soviet space.

It is important to note that one of the conditions for Russia's accession to the WTO was the development of special reservations and agreements aimed at mitigating the adverse effects of the transition process on the Russian economy (WTO.org, 2023). The European Union, which at that time accounted for more than 40 % of Russia's foreign trade balance, played a significant role in the process of its accession to the WTO. Special attention was paid to negotiations on automotive and aviation engineering, banking and insurance business, liberalization of the telecommunications sector, as well as Trans-Siberian flights. In addition, relations between potential partners deteriorated in 2008, both because of the war between Russia and Georgia and in connection with the protective measures imposed by Moscow due to the economic crisis.

4.3 Controversial issues and their impact on trade relations

Russo-Georgian conflict

According to Light (2019), the Russo-Georgian war, which began in August 2008, became a shocking event not only in Europe but also beyond its borders. In fact, this was the first mass deployment of Russian troops after the collapse of the USSR outside of modern Russia, which had a negative impact on relations between it and the West. The conflict involved two separatist enclaves Abkhazia and South Ossetia, whose governments declared their independence from Georgia and received support from Russia.

Kernen and Sussex (2012, p. 91) also add that The Russo-Georgian war “*had many hallmarks of a typical limited interstate war*”. The subject of the military conflict was a territorial dispute that arose between Russia and Georgia before the creation of the USSR. However, each side motivated its dominance over Abkhazia and South Ossetia in different ways. Russia emphasized the concepts of diaspora and kinship, while Georgia pointed to its

territorial right to governance. According to the authors, it was the manipulation of identity that became the justification for the war on the part of Russia. Among other things, the Russian government emphasized the different concepts of sovereignty in its and Georgian legislation, and also tried to justify its actions from the point of view of human security.

As for Sagramoso (2020), Russia's military intervention was an obvious sign of a violation of international law, which was aggravated by its military presence on Georgian territory after 2008. However, the strengthening of Russia's position in the occupied territories has led to the fact that it lost its influence on the rest of Georgia. At the same time, the Georgian Government increasingly turned to the West for support in this situation.

Skrypnyk (2019) emphasizes that the main reason for the Russian-Georgian war was the pro-Western and European integration policy of the Georgian government. This is also confirmed by the fact that after the Rose Revolution in 2003, Georgia took a clear course towards European reforms that brought it closer to the EU. It was the EU that subsequently became a mediator in the settlement of conflicts between the two countries and carried out a monitoring mission.

The leading EU countries condemned Russia's military actions and pursued a policy of peaceful regulation. The war was stopped through the mediation of France and, in particular, then-President Nicolas Sarkozy, who, together with Russian President Dmitry Medvedev, worked out a six-point peace settlement plan. It assumed not only a cease-fire but also the withdrawal of the armed forces to the previous positions they occupied before the start of hostilities. However, there was no direct intervention of Western countries in the conflict (Skrypnyk, 2019).

In connection with the military conflict, an extraordinary summit was held at the end of August 2008 on Russia's actions in Georgia, as well as in connection with Russia's recognition of the independence of Abkhazia and South Ossetia. Some EU member states, including France, Italy, Spain, Finland, Austria, Bulgaria, Slovenia, Greece, and Cyprus, did not support the application of strict sanctions against the Russian Federation. Poland, the Baltic states, and the United Kingdom demanded a stricter stance against Russia. The result of this summit was the suspension of negotiations on a new agreement between the EU and the Russian Federation until Russia withdraws its troops from Georgian territories (Skrypnyk, 2019).

Thus, the invasion of Russian troops on the territory of Georgia was one of the reasons why the agreement between the EU and the Russian Federation concerning their trade and economic relations in the future was never signed.

Russo-Ukrainian conflict

Unlike the Russo-Georgian war, the EU reaction to the Russo-Ukrainian conflict was more distinct and negative from the point of view of the development of economic relations between the Russian Federation and the EU. According to Mykhnenko (2020), the beginning of the conflict can be considered February-March 2014, when militants supported by the Russian authorities invaded the buildings of regional governments and local police stations throughout eastern Ukraine. This happened immediately after the violent overthrow of the government of President Viktor Yanukovich in Kyiv, as well as after the illegal annexation of the Crimean Peninsula.

It is important to note that the reasons for the political upheaval in Ukraine in 2014 played a key role in Russia's decision to interfere in the political life of Ukraine. After the Orange Revolution of 2004, then Prime Minister Viktor Yanukovich was perceived as a threat to the growing momentum of Ukrainian democracy. However, the new revolutionary authorities led by Viktor Yushchenko and Yulia Tymoshenko also did not bring the expected changes to the political life of the country. The reason for this was primarily due to their mutual rivalry as two opposition leaders (Lakomy, 2020).

The discontent of the Ukrainian people led to the fact that Viktor Yanukovich was again re-elected to the place of Prime Minister and then President of Ukraine in 2010. At first, in foreign policy, Yanukovich clearly sought an alliance with Moscow, which was confirmed by his pro-Russian orientation in general. However, the President also began to actively support the development of relations with the EU, which was strengthened by the decision to sign an association agreement between Ukraine and the EU (Lakomy, 2020; Mapples, 2021).

In this regard, the Ukrainian public expected the development of relations with the EU and Ukraine's accession to the Union in the future. However, Russia strongly opposed Ukraine's membership in the EU, which provoked the Ukrainian government to suspend

preparations for signing an association agreement with the EU. These events became a prerequisite for why Russia started the war in Ukraine in 2014 (Mapples, 2021).

Despite the fact that no official war was declared, by April 2014, the Russian media space was flooded with pro-state propaganda. In the beginning, the presence of the Russian military was completely refuted. However, after the evidence of the Kremlin's involvement in the conflict in the east of the country, the Russian side actively tried to justify its position, arguing the presence of troops with the support of the Donbass residents and because of the radical Ukrainian nationalists (Lakomy, 2020).

In response to the annexation of Crimea and political destabilization, Western countries, including the EU, gradually applied restrictive measures against Russia. These measures affected not only the diplomatic sphere but also some persons and economic relations between Russia and the EU. In particular, Russia was excluded from the G8 and the process of its accession to the Organisation for Economic Co-operation and Development and the International Energy Agency. Regular bilateral summits have also stopped (Europarl.Europa.eu, 2023).

The package of economic sanctions introduced in 2014-2015 affected much more areas and mainly concerned trade exchange between Russia and the EU in specific sectors. They were the following (Europarl.Europa.eu, 2023):

- a termination of financing of Russian projects by the European Investment Bank;
- a ban on the export and import of weapons, as well as goods for military purposes;
- a ban on issuing visas to residents of Crimea, as well as a ban on investments in Crimea and Sevastopol;
- restricting access to technologies that can be used for oil production and exploration;
- the ban on entry into the EU and the freezing of assets for some Russian and Crimean politicians and officials.

In addition, the EU has imposed a ban on the import of goods from the Crimean peninsula and the export of certain technologies. In response to European sanctions, Russia has also introduced counter-sanctions against agricultural goods, raw materials, and food

from the EU. This has become the key to an active policy of import substitution in the agricultural sector. Further, Russia also imposed a ban on entry to Russia for a number of persons who criticized its actions (the list of persons who fell under sanctions, however, has not been officially published) (Europarl.Europa.eu, 2023).

Despite this, the EU remained Russia's key partner until the events of 2022. Russia also played an important role for the EU, being in the 4th position on the list of the EU's largest trading partners.

4.4 Analysis of trade until 2014

The commodity structure of Russia's trade with the EU in the 1990s was determined by the international division of labor. Being rich in natural resources, Russia has traditionally exported crude oil, natural gas, metals, metal ores, other minerals, and unprocessed wood to the EU. Having developed mechanical engineering, chemical, and other industries with a high level of added value, the EU exported to Russia means of transport, industrial and other equipment, chemical products, consumer goods, and processed food. In 1994 the share of fuel in Russian exports was more than 40 %. In 1998, it fell to 35 % mainly due to a sharp drop in international oil prices. But even after that, fuel remained the most important product of Russian exports (Europa.eu, 2023).

The second place in the commodity structure of Russian exports to the EU belonged to industrial goods, among which about a fifth were ferrous metals. The third most important product of Russian exports to the EU was minerals, with the exception of fuel. The share of vehicles in Russian exports to the EU was very low and fluctuated around 2 %. As for the export of goods from EU countries to Russia, their trade structure in the 1990s was almost the opposite of the import structure of goods from Russia. The leading position belonged to mechanical engineering products with a 40 % share. Industrial, food, and chemical products also occupied a significant percentage (Europa.eu, 2023).

In general, until the end of the 20th century, trade between Russia and the countries of the European Union experienced periods of both growth and decline due to the influence of political, conjunctural, and other factors. At the same time, the commodity structure of mutual trade remained fairly stable.

Assessing trade between Russia and the European Union in the 2000s, it is worth noting that in the new millennium, the number of EU members has changed significantly. A very important transformation occurred in 2004 in connection 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 European Union has formed an economic space in which 450 million citizens began to live, including residents of three former Soviet republics (Estonia, Latvia, and Lithuania), four former COMECON members (Poland, Czech Republic, Hungary, and Slovakia), one former Yugoslav Republic (Slovenia) and two Black Sea islands (Cyprus and Malta) (Europa.eu, 2023).

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 the Russian trade with the countries of Central and Eastern Europe became trade between Russia and the EU. This is clearly noticeable in the index of trade turnover between Russia and the EU in 2004, which increased by 20 % compared to 2003 and reached 130 billion euros (see Figure 1) (Europa.eu, 2023).

In 2007, Bulgaria and Romania became the 26th and 27th member countries of the European Union, which also led to intensive growth in Russia's trade with the EU, but less significant compared to 2004. The latest expansion (Croatia's accession in 2013) had an even less positive impact on the growth of trade between Russia and the EU (Europarl.Europa.eu, 2023).

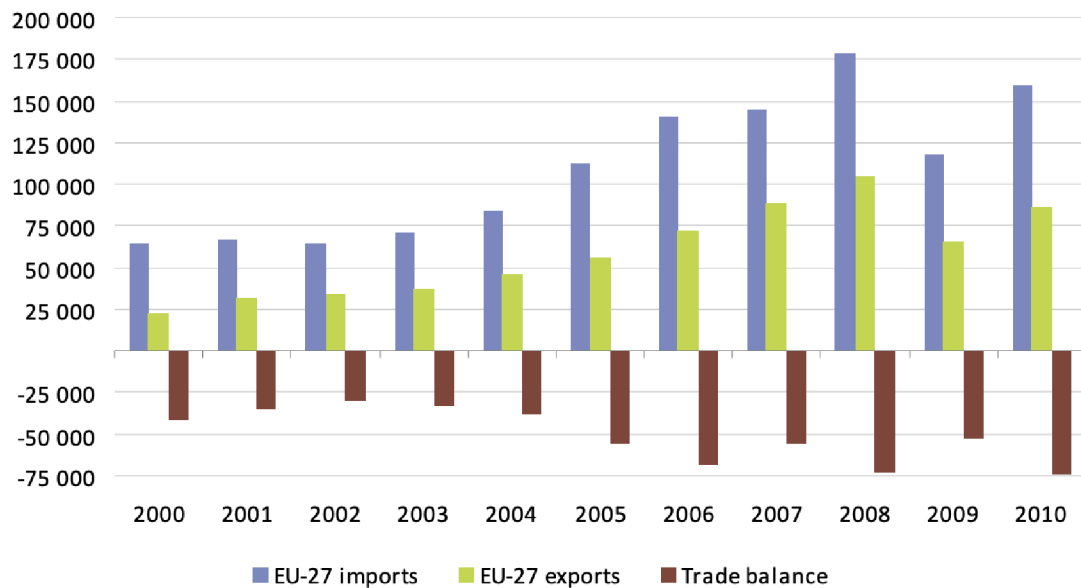
Figure 1: Russia's trade with the EU in 2000-2013, billion euros

Year	Trade turnover	Export from Russia to EU	Import from Russia to EU	Balance
<i>2000</i>	86,52	63,78	22,74	41,04
<i>2001</i>	97,48	65,88	31,60	34,27
<i>2002</i>	98,91	64,49	34,42	30,07
<i>2003</i>	107,90	70,69	37,21	33,48
<i>2004</i>	129,98	83,95	46,03	37,92
<i>2005</i>	169,29	112,59	56,70	55,89
<i>2006</i>	213,20	140,89	72,31	68,58
<i>2007</i>	233,40	144,27	89,13	55,14
<i>2008</i>	283,13	178,29	104,84	73,45
<i>2009</i>	183,70	118,12	65,58	52,53
<i>2010</i>	246,84	160,70	86,13	74,57
<i>2011</i>	308,27	199,92	108,35	91,56
<i>2012</i>	336,47	213,21	123,26	89,95
<i>2013</i>	326,30	206,50	119,80	86,70

Source: own work based on the data from Eurostat, 2022

In general, trade relations between Russia and the EU from 2000-2012 experienced steady growth with a single exception in 2009. The recession, which began in the second half of 2008 and continued in 2009, was obviously provoked by the global crisis and its consequences in relation to world oil prices, which was Russia's main export commodity. Crude oil and other mineral prices have declined due to falling demand in all major importing countries affected by the global crisis. Despite this, from 2000-2012, Russian imports from the EU increased almost 5.5 times. At the same time, a significant increase in prices for oil, gas, and other important Russian export goods led to an uptick in EU imports from Russia by 3.3 times.

Figure 2: Trade between the EU and Russia in goods in 2000-2010, million euros



Source: Ottens, 2011, p. 3

During the first decade of the new century, Russia also remained a reliable energy supplier to the EU, and its net energy exports only increased. The peak was reached in 2007 when net exports amounted to 559 million tons. Also, during the period 1995-2009, imports of solid fuels from Russia to the EU increased significantly, mainly due to a number of countries: Germany, Poland, Finland, Denmark, and the Netherlands. In 2009, Germany and Poland were also the main importers of crude oil from Russia, receiving 20 % and 11 % respectively. By the end of 2010, Russia had surpassed Saudi Arabia in crude oil production (Europa.eu, 2014).

Natural gas also remains a strategically important product in the trade turnover between Russia and the EU. In 2009, about 30 % of all Russian natural gas exported to the EU was sent to Germany. The second position was occupied by Italy with an indicator of 17 %. The shares of other countries did not exceed 10 % (Europa.eu, 2014). In general, it can be noted that by 2010, the share of mineral fuel accounted for 75 % of the value of all imports from Russia to the EU. A huge share of it was occupied by oil and petroleum products, namely 85 % (Ottens, 2011).

EU exports to Russia were much more diversified, although, by the end of the first decade of the new century, it was dominated by machinery and transport equipment, which

accounted for 45 % of all exports. The percentage of chemicals (18 %) and other industrial goods (24 %) also remained relatively large (Ottens, 2011). Over the next three years, the situation has not actually changed. The share of fuel in Russian exports to the EU remained at 77 % in 2013. The EU retained a 47 % share of cars in exports to Russia.

After Russia became a WTO member in 2012, in accordance with its obligations, it began to reduce the number of import duties. However, this process was very long-term and assumed a reduction in duties for 7 years. This means that the results of Russia's accession to the WTO appeared only in 2019.

4.5 Analysis of trade after 2014

In 2014, the stability of the development of trade and economic relations between Russia and the European Union was undermined. Since this year, the era of sanctions wars has begun for Russia. However, despite the sanctions imposed, Russia still occupies an important position among the EU's trading partners. Its share amounted to 8.4 % of the EU's total foreign trade in 2014. Before sanctions were imposed, Russia was the EU's main largest economic partner. Subsequently, the United States and China took their place. But the EU also remained an important partner of Russia in terms of direct financial investments, the share of which was 75 %. In 2014, exports from the EU to Russia decreased by 12.4 %, and imports by 13.5 % compared to 2013 (Europa.eu, 2023).

However, the situation worsened in 2015. The volume of bilateral trade with Russia amounted to 209.6 billion euros, which is 6 % of the total foreign trade activity of the European Union and 26 % less than in 2014 when this figure amounted to 284.6 billion euros. Russia's trade turnover with the EU has reached its lowest value since 2009 when it amounted to 185.3 billion euros (Europa.eu, 2023). This included primarily trade in goods, which did not include direct investment and trade in services.

Figure 3: Russia's trade with the EU in 2014-2021, billion euros

Year	Trade turnover	Export from Russia to EU	Import from Russia to EU	Balance
2014	285,50	182,03	103,48	78,55
2015	209,62	135,71	73,91	61,80
2016	178,81	112,49	66,32	46,17
2017	218,33	141,40	76,93	64,47
2018	249,28	173,68	75,60	98,08
2019	248,24	169,06	79,18	89,88
2020	191,87	120,00	71,87	48,13
2021	261,03	177,83	83,20	94,63

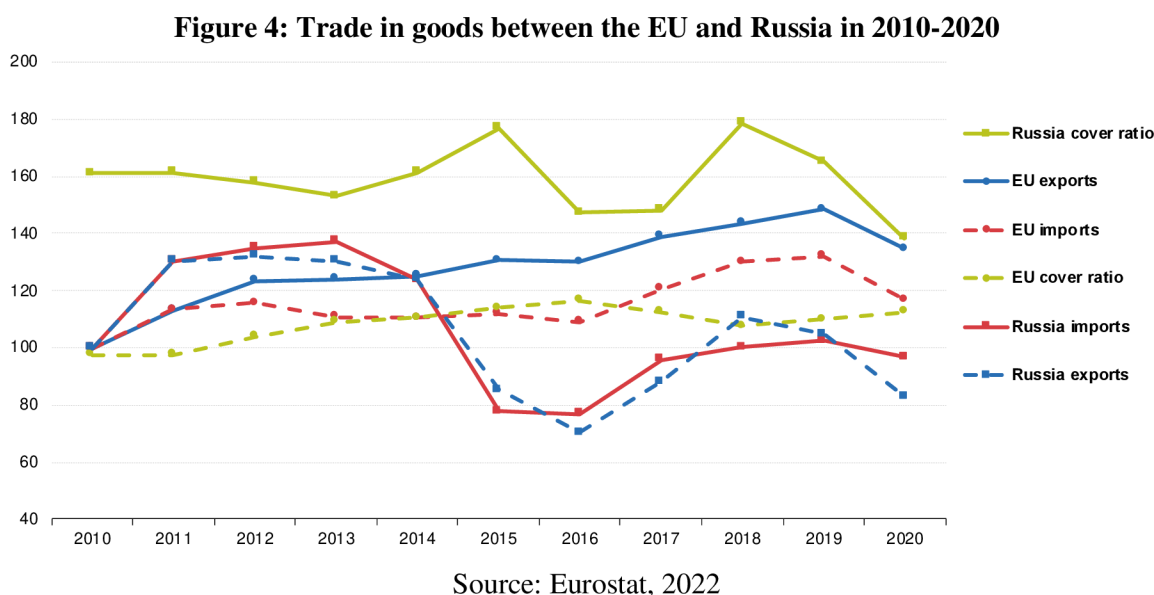
Source: own work based on the data from Eurostat and Trade Map, 2022

In the list of trade partners of the European Union in 2015, Russia for the first time lost third place to Switzerland, with a trade turnover of 253 billion euros. Lithuania turned out to be the only EU country whose priority trading partner Russia remained in 2015 (Europa.eu, 2023). Due to the current sanctions, the vector of development of foreign trade relations is gradually changing, and Russia was increasingly interested in trade with Eastern countries, primarily the APEC countries (Europarl.Europa.eu, 2023).

According to the results of 2016, the share of the European Union in the foreign trade turnover of the Russian Federation decreased to 42.8 %. As a result of the introduction of sanctions against Russia and further Russian counter-sanctions, the EU economy suffered losses in the amount of 17.6 billion euros in 2015. At the same time, the EU was forced to cut about 400 thousand jobs (Europa.eu, 2023). The structure of foreign trade of both subjects has also changed. It is important to note that the decline in exports from Russia to the EU during this period was due to a decrease in world energy prices.

However, by the end of 2016, the situation changed again and the decline in trade turnover between the Russian Federation and the EU stopped. Starting in 2017, a rapid recovery in the volume of mutual trade began, which continued until 2018. Moreover, Russia

has been increasing imports of goods to the EU in 2019, just like the EU to Russia (see Figure 4) (Europa.eu, 2023).



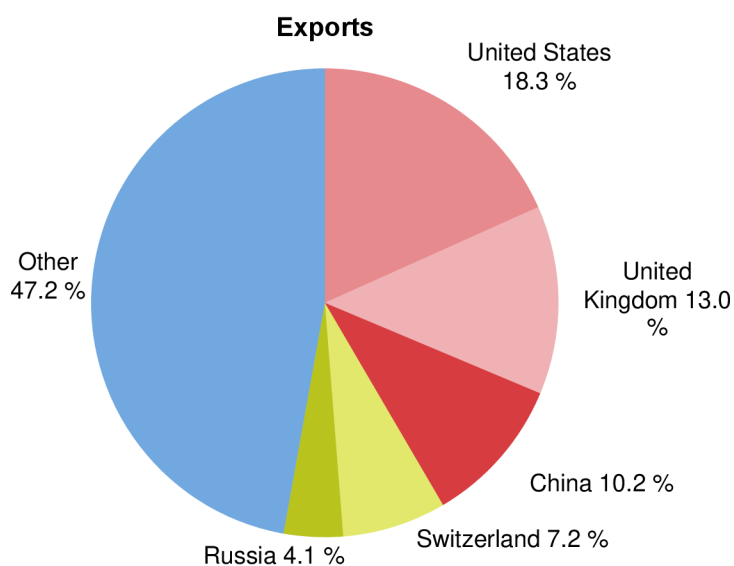
The growth of trade between the EU and Russia in 2017 amounted to 26 % and was due to several factors. First of all, the export of agricultural products from the EU to Russia increased by 7 %, while in June 2014 it fell by 46 %. Also, the supply of production equipment increased by 22 %, machinery by 11 %, electronic equipment by 9 %, and medicines also by 9 % (RussiaEU.ru, 2023). In 2018, the structure of trade turnover did not change much. Russia's main trading partners in Europe this year were Germany and the Netherlands, whose share of the country's total foreign trade turnover was 8 % and 6 %, respectively (Europa.eu, 2023).

By 2019, the trade turnover between the EU and Russia decreased by 5.6 % compared to the previous year, which was particularly affected by a decrease in exports from Russia to the EU by 7.8 %. This also led to a reduction in the EU's share of Russia's total foreign trade turnover to 41.7 % (Europa.eu, 2023).

By the end of 2020, the foreign trade turnover between Russia and the EU countries amounted to 174.2 billion euros. This is 25 % less than in 2019. Deliveries from EU countries decreased by 9.5 % and amounted to 79 billion euros. Russian exports to European Union countries decreased by 34.3 % compared to 2019, to 95.2 billion euros (Europa.eu, 2023). By this time, Russia had shifted to the fifth position among the largest exporters to the EU, giving way to China, the United States, Great Britain, and Switzerland.

Despite the stable trade relations between Russia and the EU, it was assumed that their scale would begin to decline after 2014. Thus, the EU will become much less dependent on Russia in the field of energy security, and Russia, in turn, will become a little more independent in both the financial, industrial, and infrastructure spheres. However, by 2021, the foreign trade turnover between Russia and the EU countries has grown enormously and amounted to 247.8 billion euros, which is 42.7 % more than in 2020. Russian exports to the EU have increased by 67.4 % from the previous year (Europa.eu, 2023).

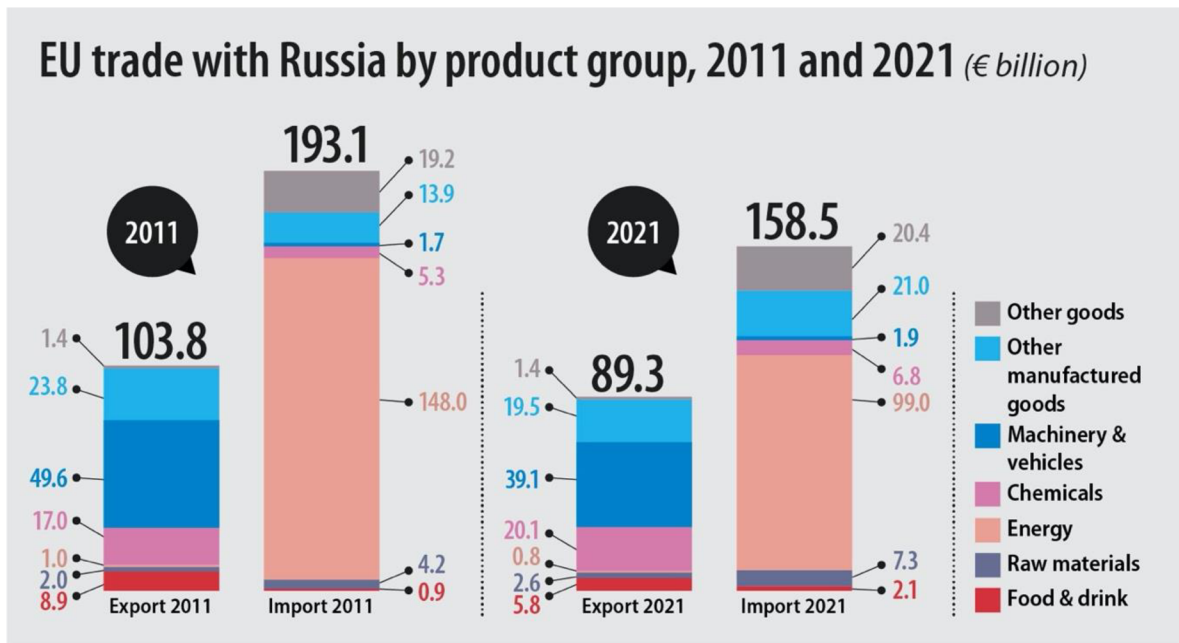
Figure 5: Structure of goods export from the EU in 2021



Source: Eurostat, 2022

But when analyzing the structure of the EU's foreign policy trade in 2021, it can be seen that Russia's share has significantly decreased and amounted to only 4.1 % (see Figure 5). Compared to 2011, the import of energy resources from Russia to the EU decreased from 76.7 % to 62.4 % in 2021 (see Figure 6) (Europa.eu, 2023). The EU has also reduced exports to Russia, mainly due to machines and vehicles.

Figure 6: Structure of international trade between the EU and Russia in 2011 and 2021



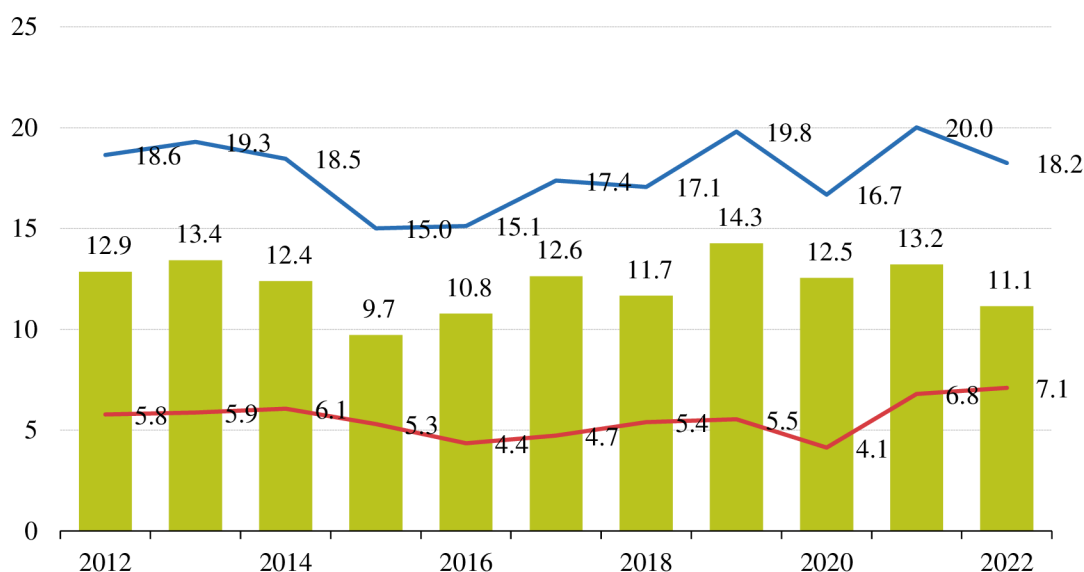
Source: Europa.eu, 2022

Since the invasion of Russian troops in Ukraine in February 2022, trade between Russia and the EU has been completely disrupted (Europarl.Europa.eu, 2023).

4.6 Changes in the trade structure between Russia and the EU

In order to track the factors that have caused changes in trade between Russia and the EU, it is necessary to consider in more detail the structure of trade relations between these entities. In general, there are several main areas in which key changes have been recorded, namely the chemical industry, food and beverages, machinery and vehicles, energy and other manufacture goods. The changes are shown in the following graphs, where the blue line indicates exports from the EU to Russia, and the red curve indicates imports from the EU to Russia, while the green columns symbolize the overall balance.

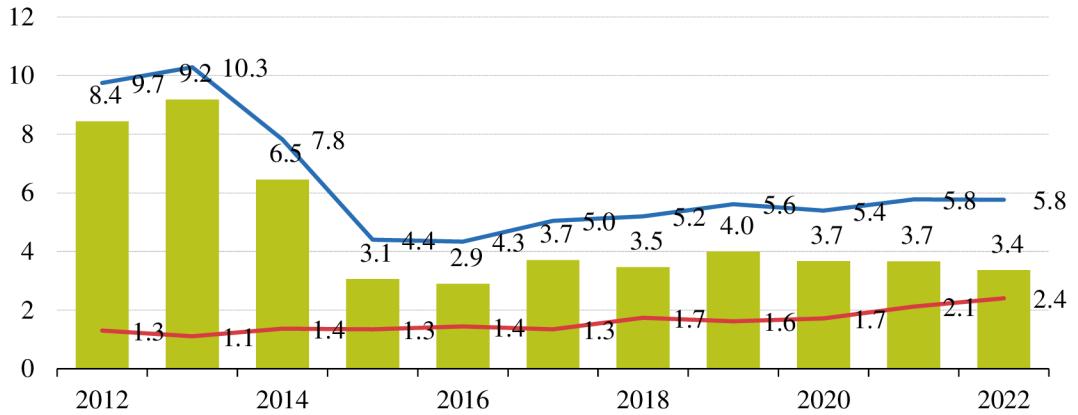
Figure 7: Trade of chemical products between Russia and the EU in 2012-2022, billion eur



Source: Eurostat, 2023

The EU has long remained an important supplier of chemical products to Russia. In 2012, these goods represented 16 % of all exports from the EU. Due to the sanctions, the volume of chemicals imported to Russia from the EU decreased from 18.6 billion euros in 2012 to 15.0 billion euros in 2015. Despite this, the percentage of chemicals in the overall export structure increased due to a decrease in the percentage of other products. In 2015, it accounted for more than one fifth of all exported goods from the EU to Russia. The volume of exported chemicals grew steadily until 2019, with the exception of a slight drop in 2018. It is noteworthy that by 2022, these products have become the leaders in the structure of exports from the EU to Russia with a tertiary share in the total volume. But the import of chemicals from Russia to the EU practically did not change during the analyzed period. Moreover, it has even slightly increased from 5.8 % in 2012 to 7.1 % in 2022.

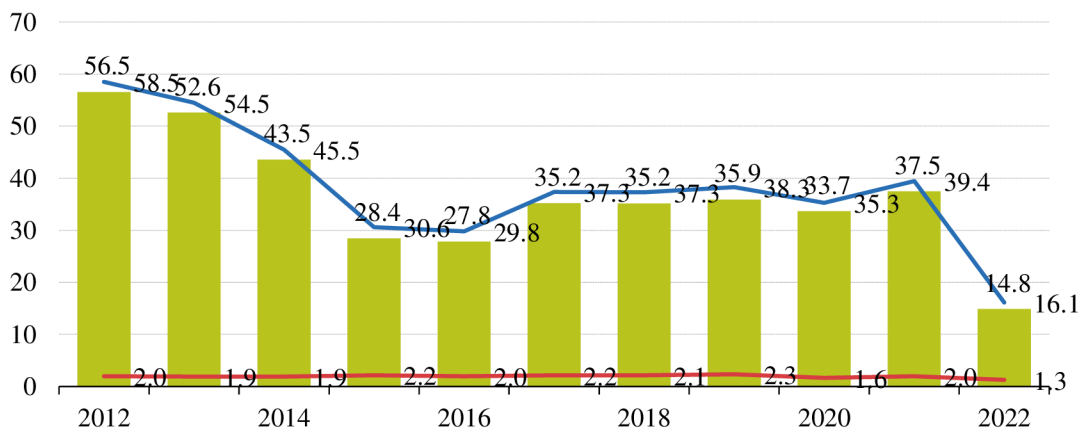
Figure 8: Trade of food & drink products between Russia and the EU in 2012-2022, billion eur



Source: Eurostat, 2023

Food and drinks have become the category of products most affected by the counter-sanctions launched by Russia against the EU in 2014. This greatly affected the export rate, which decreased from 9.7 % in 2012 to 4.4 % in 2015 and 4.3 % in 2016. Both sides suffered from this situation, although it is also important to note that over the following years, the volume of products of this category exported from the EU to Russia gradually increased to 5.8 % in 2022. At the same time, over the period 2012-2022, the volume of products imported from the EU to Russia has almost doubled.

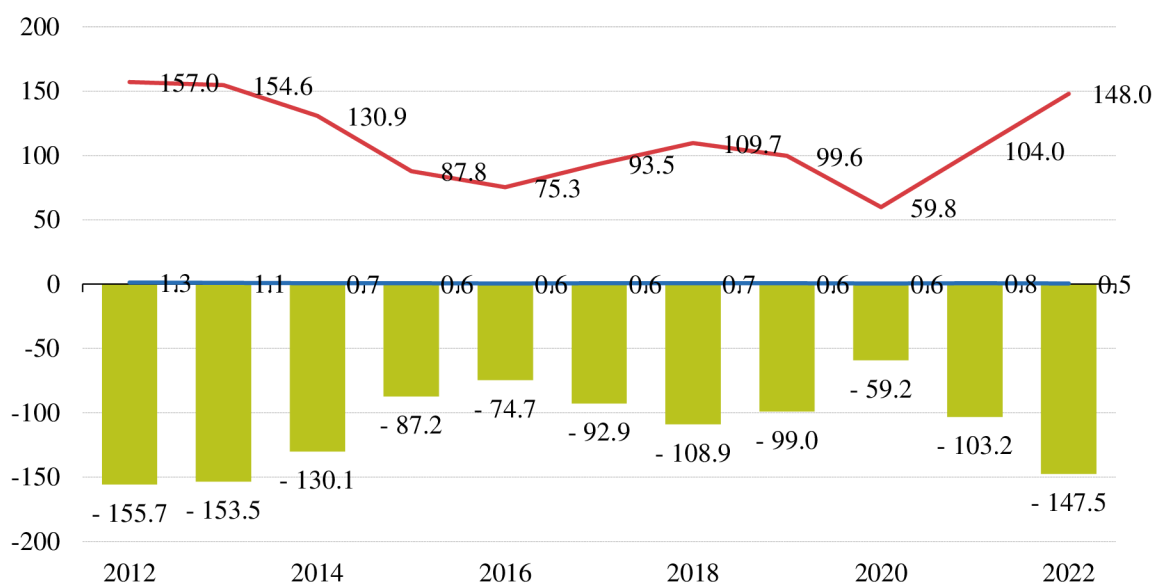
Figure 9: Trade of machinery & vehicles between Russia and the EU in 2012-2022, billion eur



Source: Eurostat, 2023

Machines and vehicles, alongside with energy, occupied an important place in trade between Russia and the EU. At the same time, it is important to note that the import of these goods from Russia to the EU was almost scanty and the entire trade balance was based on the export of cars from the EU. Despite the fact that this indicator has been decreasing over time, in 2012 the share of cars and vehicles accounted for half of the total volume of goods exported from the EU to Russia. Sanctions and their impact in 2015-2016 contributed primarily to the drop in exports. By this time, the share of cars in exports from the EU to Russia had fallen to 30 billion euros, although the percentage relative to the total volume was still high. The share of vehicles in exports at that time was 43 %. In 2021, the EU exported cars to Russia totaling 39.4 billion euros. Thus, for the period from 2014 to 2021, the indicators of vehicle exports have not reached the previous volumes.

Figure 10: Trade of energy between Russia and the EU in 2012-2022, billion eur

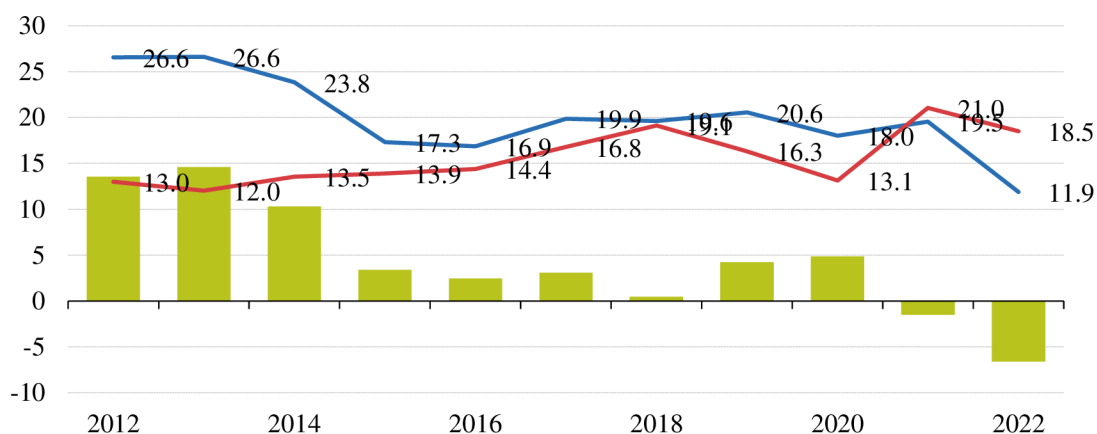


Source: Eurostat, 2023

Energy is the main product in the trade turnover between Russia and the EU. Graph 10 shows that during the entire period, the volume of energy supplies from Russia to the EU remained high relative to other product categories. In 2012, the EU imported energy from Russia in the amount of 157 billion euros, which accounted for 77 % of all imports from

Russia that year. The following year, supplies decreased slightly, but a large drop in volumes occurred in 2016 under the influence of sanctions. Then the amount of imported energy from Russia to the EU amounted to 75.3 billion euros, i.e. two times less than in 2012. The volume of exports from Russia gradually increased in subsequent years, but in 2020 it fell again to a record low of 59.8 billion euros. However, in terms of the share of energy in the total volume of exports from Russia, the indicator did not change much and amounted to 63 %. Moreover, before the restriction of Russia's trade with the EU in 2022, the volume of supplied energy was as close as possible to the indicator of 2013 (before the introduction of all sanctions and counter-sanctions).

Figure 11: Trade of other manufactured goods between Russia and the EU in 2012-2022, billion eur



Source: Eurostat, 2023

The trade turnover between Russia and the EU in the field of other manufactured goods also reacted to the economic and political relations between the two countries (see Figure 11). It is noteworthy that in terms of the volume of supplies, this particular category of goods was characterized by approximately the same share from both the EU and Russia. Moreover, if in 2012 exports of other manufactured goods from the EU to Russia were twice as high as imports, then in 2021 and 2022 Russia was ahead of the EU in terms of exported goods. A drop in volumes in this product category was also recorded in the period from 2014 to 2016.

5 Results and Discussion

After Russia gained independence, the EU became one of the key partners in Russia and an assistant in the formation of its nascent market economy. Their relationship was based on several agreements, but the main one was the PCA agreement, which was in effect from 1997 to 2007. During this period, Russia and the EU created the foundations for economic and social cooperation, which took into account the principles of equality, mutual respect for interests and mutual benefits. This was also positively influenced by the enlargement of the EU in 2004 and 2007.

However, the continuation of the PCA agreement was postponed, which indicated the emergence of tension in relations between Russia and the EU. It intensified after Russia entered into an armed conflict with Georgia over a territorial dispute. Although, according to Skrypnyk (2019), the reason for the war was the European integration policy of the Georgian government, while Russia sought to indirectly influence the Georgian authorities for the sake of its interests.

The EU's reaction to the conflict was restrained, but the decision to extend the long-term trade agreement between Russia and the EU was postponed. The only obvious progress in relations between them was Russia's accession to the WTO in 2012, which was supposed to contribute to the reduction of customs duties on imported goods from the EU, open access to the services market in Russia and solve agricultural issues. However, the solution of these tasks involved the gradual introduction of appropriate measures. For the EU, this meant that the advantages of Russia's accession to the WTO would appear only after 7 years.

However, Russia's interference in Ukraine's political affairs and the annexation of Crimea dramatically changed the nature of trade relations between Russia and the EU in 2014 and over the next two years. It is also important to note that these events occurred after Ukraine announced its clear intention for European integration (just as in the case of Georgia). In response to Russia's actions, the EU imposed sanctions on the diplomatic and economic sphere. In particular, the sanctions implied restrictions between Russia and the EU in such areas as direct investment, export and import of military goods, technology in the field of oil production, etc. Russia imposed counter-sanctions against the EU, which primarily concerned agricultural products. It was done primarily to protect the home market and pursue an active import substitution policy.

When analyzing trade between Russia and the EU, some trends can also be noticed. One of its distinctive features was long-term energy supplies from Russia to the EU, which at various times accounted for 40 to 75 % of all goods exported from Russia to the EU. The country also supplied metallurgical products (primarily ferrous metals) and some minerals to the EU. At the same time, the EU provided Russia with chemicals, food products, as well as machinery and vehicles.

The trade turnover between Russia and the EU increased with the expansion of the EU in the middle of the first decade of the new century, in particular in 2004 it increased by one fifth compared to 2003. The sustainable development of trade was disrupted by the 2008 financial crisis and its consequences. However, over the first decade of the 21st century, the trade turnover between Russia and the EU has grown by more than 5 times. For the most part, solid energy imports from Russia were provided by Germany and Poland, almost half of all Russian gas supplies came from Germany and Italy. EU exports to Russia were more diversified.

The impact of sanctions and counter-sanctions has manifested itself gradually. The main blow fell on 2015 and 2016, when the largest decline was recorded not only in exports from Russia to the EU, but also in imports from the EU to Russia. In trade supplies, the EU refocused on the United States, China, and subsequently the United Kingdom and Switzerland. Although in 2014 its direct investments in Russia were still large. Russia, in turn, sent trade supplies to eastern countries, mainly APEC countries. It is important to note that the decrease in the volume of energy products from Russia to the EU in the period from 2014 to 2016 was also due to a decrease in oil prices. Since 2017, the trade turnover between Russia and the EU has begun to grow, mainly due to the export of agricultural products and production equipment from the EU to Russia. A sharp jump was also observed in 2021 before trade relations between the subjects were completely terminated in 2023.

6 Conclusion

The analysis carried out in this paper showed that the same problems persisted in trade relations between Russia and the EU for a long time. To a certain extent, they were connected with the inconsistent actions of the Russian government and its ambivalent approach towards neighboring countries. While Russia designated the EU as one of its main trading partners, it did everything possible to prevent other countries, including Ukraine and Georgia, from taking a course towards European integration and the development of political and economic relations with the Union. This in turn affected Russia's relations with the EU, in particular after the termination of the PCA agreement and the annexation of Crimea.

At the same time, Russia and the EU were dependent on each other for the supply of certain product categories. Russia was the main energy exporter to the EU, and the EU provided the country with chemicals, food products, machinery and vehicles. Both sides suffered from sanctions and counter-sanctions in 2014. However, Russia was able to survive the crisis thanks to the policy of import substitution, while the EU suffered less losses due to the diversification of goods exported to Russia. Moreover, since 2017, the trade turnover between the EU and Russia has started to grow again, with the exception of a slight decline in 2020 due to the coronavirus pandemic.

In addition to the obvious problems in the trade relations between the two entities, some other factors need to be taken into account. Firstly, it is that Russia did not use WTO accession as a chance to diversify its exports, but rather focused even more on energy supplies to the EU, thereby increasing its dependence. Secondly, some of the EU countries preferred to establish bilateral relations with Russia, which ultimately opposed their interests to the interests of the EU in the issue of trade with Russia. Thirdly, it is impossible not to mention the EU's belief in a diplomatic solution to issues with Russia, which turned out to be absolutely ineffective in view of Russia's aggressive and straightforward actions against countries whose policies contradict its original plans. Some of the countries were obviously dissatisfied with Russia's interference in the foreign policy of other countries, but dependence on energy supplies did not allow them to take a stable position on this issue.

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