

The economic impact of the reciprocal EU-Russia sanctions on the EU

- Summary of study from May 2017 -

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Three fundamental questions regarding sanctions

- i. Do sanctions substantially impact the economy of target country?
- ii. Does this economic impact translate into a change in policy?
- iii. To what extent do sanctions hurt the own economy?

Our research

- **Case:** EU sanctions against Russia (incl. Russian countersanctions)
- **Scope:** only question iii; economic impact on the EU

From observed export decrease to EU GDP: two steps

Fact: EU export to Russia has decreased by **EUR 47 bn** in 2016 (vs 2013)

But: EUR 47 bn \neq impact on EU economy, for two reasons

- i. Sanctions were not the only reason for export reduction; fall in oil prices also played a major role
- ii. Export reduction is not identical with a GDP reduction. Companies can - to some extent- reorientate exports to other destinations; exports and GDP are different concepts (GDP: value added, exports: turnover)

Thus: analysis consists of two steps



Sanctions-related export decrease (step 1)

	Approach i	Approach ii	Approach iii
	EU exports to RUS vs EU exports to KAZ	EU exports to RUS vs exports to RUS from countries without sanctions	Employing the results from a gravity model (WIFO 2016)
EU export decrease to RUS 2016 vs 2013	EUR 47 bn	EUR 47 bn	EUR 47 bn
Sanctions-related share 2016	23%	36%	43%
Sanctions-related export decrease 2016	EUR 11 bn	EUR 17 bn	EUR 20 bn

Source: Own estimations based on Eurostat and Federal Customs Agency of Russia and WIFO 2016; trade in goods

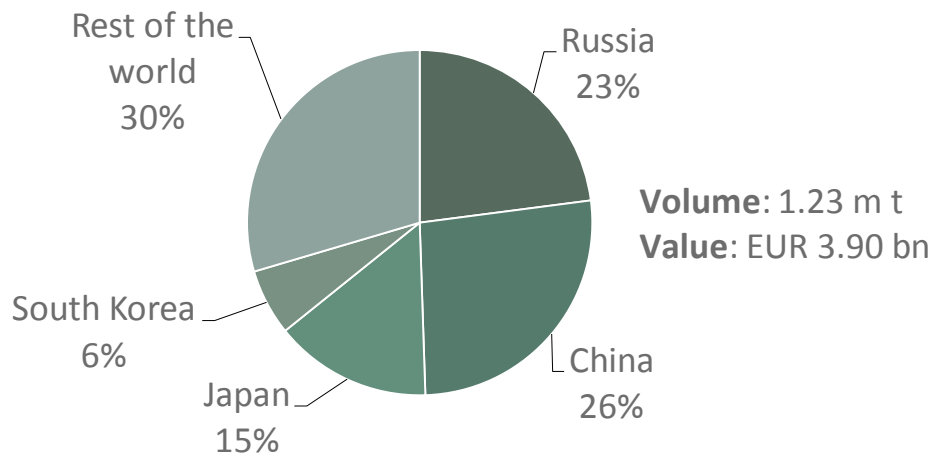
Estimation results and comparison to existing studies

Estimation	Impact on EU export to RUS (step 1)		Impact on EU GDP (step 2)	
	EUR bn	%	EUR bn	% of GDP 2016
Berlin Economics 2017				
<i>Export to RUS vs KAZ</i>	11	23	4	0.03
<i>Export EU vs countries without sanctions</i>	17	36	6	0.04
<i>Using WIFO 2016 in step 1</i>	20	43	7	0.05
WIFO 2016	20	43	18	0.12
WIFO 2015				
<i>short-term impact</i>			33	0.22*
<i>long-term impact</i>			90	0.61*
Study on request of the EU Commission 2014 ^t			50	0.34*
Russian Academy of Science 2015 ^{tt}				0.5**

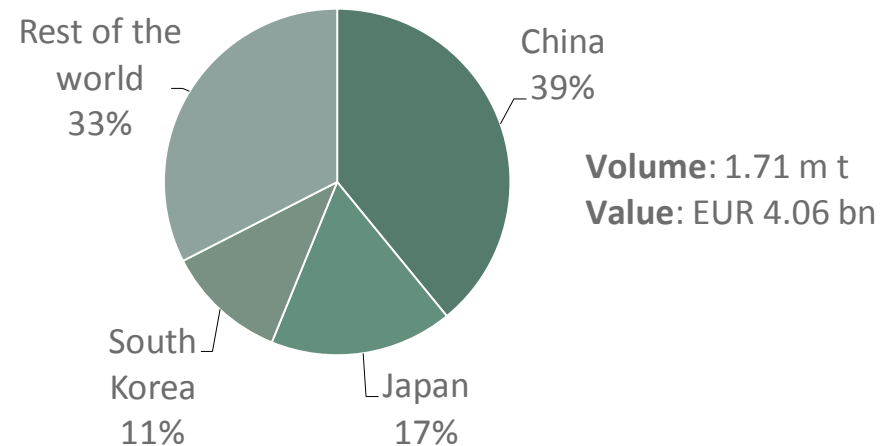
*Absolute impact refers to EU GDP 2016; **Year of reference unknown; ^tunpublished; ^{tt}Institute for Economic Forecasting at the Russian Academy of Science

Reorientation of exports: the example of pork

EU exports of pork, 2013



EU exports of pork, 2015



Source: ITC Trade Map 2017; Shares by weight

- **Export volume:** Significant increase; no negative impact on production
- **Thus:** Export volume to Russia from 2013 amounting to 0.37 m t completely replaced
- **How?** Additional export to China, South Korea and Japan
- **But:** \emptyset price for this volume has decreased from 2,616 to 2,343 EUR/t; negative price effect → **Estimated adjustment factor: 90%**

Int. trade flows: Reorientation of Brazilian exports from Ukraine to Russia

Impact on the GDP of EU countries

	EU exports in EUR bn		Export decrease in EUR bn	Step 1: Sanctions-related export decrease in EUR bn	Step 2: Impact on GDP, EUR bn	Step 2: Impact on GDP, % of GDP
	2013	2016	2016 vs 2013	2016	2016	2016
Lithuania	4.87	3.05	1.82	0.41 - 0.79	0.15 - 0.28	0.39 - 0.73
Estonia	1.41	0.78	0.64	0.14 - 0.28	0.05 - 0.10	0.25 - 0.47
Latvia	1.76	1.24	0.52	0.12 - 0.22	0.04 - 0.08	0.17 - 0.32
Slovakia	2.55	1.48	1.08	0.25 - 0.47	0.09 - 0.17	0.11 - 0.21
Finland	5.36	2.98	2.38	0.54 - 1.03	0.19 - 0.37	0.09 - 0.17
Slovenia	1.19	0.79	0.40	0.09 - 0.17	0.03 - 0.06	0.08 - 0.16
Hungary	2.53	1.41	1.11	0.25 - 0.48	0.09 - 0.17	0.08 - 0.15
Czech Republic	4.47	2.78	1.70	0.39 - 0.74	0.14 - 0.26	0.08 - 0.15
Poland	8.11	5.21	2.91	0.66 - 1.26	0.24 - 0.45	0.06 - 0.11
Austria	4.31	1.95	2.36	0.54 - 1.02	0.19 - 0.37	0.06 - 0.10
Bulgaria	0.58	0.34	0.24	0.05 - 0.10	0.02 - 0.04	0.04 - 0.08
Netherlands	7.96	4.69	3.26	0.74 - 1.41	0.27 - 0.51	0.04 - 0.07
Germany	35.79	21.67	14.12	3.22 - 6.12	1.16 - 2.20	0.04 - 0.07
Belgium	5.11	3.39	1.72	0.39 - 0.74	0.14 - 0.27	0.03 - 0.06
Malta	0.04	0.00	0.03	0.01 - 0.01	0.00 - 0.01	0.03 - 0.05
EU-28	119.45	72.41	47.04	10.72 - 20.38	3.85 - 7.32	0.03 - 0.05

Source: Eurostat; trade in goods

(cont'd) Impact on the GDP of EU countries

	EU exports in EUR bn		Export decrease in EUR bn	Step 1: Sanctions- related export decrease in EUR bn	Step 2: Impact on GDP, EUR bn	Step 2: Impact on GDP, % of GDP
	2013	2016	2016 vs 2013	2016	2016	2016
EU-28	119.45	72.41	47.04	10.72 - 20.38	3.85 - 7.32	0.03 - 0.05
Denmark	1.56	0.73	0.83	0.19 - 0.36	0.07-0.13	0.02 - 0.05
Sweden	2.73	1.54	1.18	0.27 - 0.51	0.10 - 0.18	0.02 - 0.04
Romania	1.38	0.97	0.41	0.09 - 0.18	0.03 - 0.06	0.02 - 0.04
Italy	10.77	6.72	4.05	0.92 - 1.76	0.33 - 0.63	0.02 - 0.04
Croatia	0.28	0.19	0.09	0.02 - 0.04	0.01 - 0.01	0.02 - 0.03
France	7.72	4.94	2.78	0.63 - 1.20	0.23 - 0.43	0.01 - 0.02
Spain	2.81	1.60	1.21	0.28 - 0.52	0.10 - 0.19	0.01 - 0.02
Greece	0.40	0.22	0.19	0.04 - 0.08	0.02 - 0.03	0.01 - 0.02
Ireland	0.63	0.36	0.27	0.06 - 0.12	0.02 - 0.04	0.01 - 0.02
Cyprus	0.02	0.01	0.01	0.00 - 0.01	0.00 - 0.00	0.01 - 0.01
Great Britain	4.67	3.08	1.58	0.36 - 0.69	0.13 - 0.25	0.01 - 0.01
Portugal	0.26	0.14	0.12	0.03 - 0.05	0.01 - 0.02	0.01 - 0.01
Luxembourg	0.16	0.13	0.03	0.01 - 0.01	0.00 - 0.00	0.00 - 0.01

Source: Eurostat; trade in goods

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