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Some recommendations for the policy-makers

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Summary

When sanctions are imposed they do not only affect the economy of the targeted country, they may also affect the economies of sender countries. This article investigates the effects on the export to Russia of the eight EU countries around the Baltic Sea between 2013 and 2017. The effects on total export for each country are studied as well as the effects on separate product groups according to the Standard International Trade Classification (SITC). It is found that export has fallen for all Baltic Sea countries but that the degree varies substantially. There is also great variation in how different product groups have been affected.

Keywords

Russia, Baltic Sea countries, sanctions, countersanctions, export, SITC

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1. Introduction

It is now over four years since the US and the EU started to impose economic sanctions on Russia as a response to Russia's annexation of Crimea and military operations in Eastern Ukraine. The sanctions have affected the Russian economy and Russia has responded by imposing countersanctions and an import substitution policy that advocates that a number of foreign goods should be replaced by domestic products. Because the EU and Russia are close trading partners, several EU countries have been affected by the economic restrictions imposed by the West as well as of Russia's counter measures.

Previous studies on the effects on the Western sanctions are mainly concerned with how the sanctions have affected the Russian economy. It has been found that the effect particularly come through the economic sanctions that restrict access of key state actors to international capital markets, which has led to capital shortage and hard pressure on the Russian federal budget. Parallel to the development, Russia's import substitution policy and countersanctions, particularly on foods, have led to higher domestic prices and efficiency losses in Russia. Some research has been conducted on the effects on the EU countries, the senders of the sanctions. These works explore changes in trade between Russia and the EU as a whole and individual member states.

The objective of this article is to investigate how the sender countries around the Baltic Sea have been affected by the sanctions and countersanctions, after they were imposed in 2014, by analysing changes in the export from the Baltic Sea countries to Russia 2013-2017. Who are the winners and who are the losers? Which goods have been most affected? The article is restricted to investigating the changes in export of goods. The export of goods to Russia from the Baltic Sea countries (BSCs) that are part of the EU – Finland, Estonia, Latvia, Lithuania, Poland, Germany, Sweden and Denmark[1] – during 2013-2017 is analysed both as totals for each country and for separate product groups according to the Standard International Trade Classification (SITC). Naturally, changes in export are caused by many other factors apart from sanctions. This is a general problem when effects of sanctions are assessed and during the period changes like the fall of the oil price, depreciation of the rouble and Russian protectionist policies have affected export to Russia too. These circumstances are taken account of in the discussion and the ambition of the study is not to separate the effects of sanctions but to explore the total effect on export trends during the period in which sanctions and countersanctions have plaid a role.

The outline of the article is as follows. The second section discusses previous research on sanctions and their effects, especially effects of the sanctions imposed on Russia in connection with Russia's aggression towards Ukraine. The third section explores the trade between Russia and the EU and how it has been impacted since 2014. The fourth section analyses the effects on export between Russia and the eight BSCs. The fifth section discusses different factors that have contributed to the decline in the BSCs' export to Russia and the sixth attempts to assess from which aspects there are winners and losers in this process. The final section draws the conclusions.

2. Previous research on effects of economic sanctions

Most research on economic sanctions focuses on effects on the sanctioned country, which is called "the target" in the sanction literature. Blanchard & Ripsman (2015) present a theoretical framework on how to analyse effects and the success of sanctions. The goal with economic sanctions is to affect the target's policies in some area by imposing costs on its economy. However, economic sanctions alone can usually not affect the political level directly. To successfully influence the political level other factors or circumstances must strengthen the sanctions. The empirical sanction literature uses data bases containing numerous cases of different countries being sanctioned and has identified factors that affect the success of sanctions and the sign and size of these factors on sanction success are analysed (Hufbauer et al. 2007; Kaempfer & Lowenberg 2007; Drezner 2011; Major 2012; Bapat et al. 2013).

The factors frequently explored in these studies are: the sanction costs imposed on the target; the trade dependency between the target country and the sender countries; the effect of having multiple uncoordinated senders instead or a single or coordinated senders; the effect of having international institutions (e.g. the UN) standing behind the sanctions or not; the target's possibility to redirect trade to other countries; if the target has an authoritarian regime or democracy; and the importance of the original conflict (Oxenstierna & Olsson 2015, p. 27). Several of these factors have ambiguous signs when results from different empirical studies are compared. However, there is quite clear support for that sanctions costs for the target countries strengthen the sanctions. The sign of trade dependency varies but is has a positive sign in Barpat et al. (2013) and Major (2012), which means it increases the probability of sanction success. Support from international institutions have a clear positive sign. However,

1 The order is geographical following how the countries are situated around the Baltic Sea, clockwise from the north east to the west.

the effect of having alternative trading partners, or that the target is ruled by an authoritarian regime, or crucial importance of the original conflict to both sides are all negative and weaken the effects of sanctions (Oxenstierna & Olsson 2015, p. 86).

Effects on the Russian economy

The Russian Minister of Finance, Anatoliy Siluanov, acknowledged already in 2014 that the annual cost of sanctions to the Russian economy could be $40 billion (2 per cent of GDP). This is small compared to the loss of $90-100 billion (4-5 per cent of GDP) attributed to the lower oil price, but still very significant *(Reuters* 2014). Research on the sanctions against Russia since 2014 consist of explanations of the US and EU sanctions and Russian counter measures that were imposed and analysis of their effects on the Russian economy. The IMF estimated in 2015 that US and EU Ukraine-related sanctions together with Russia's retaliatory ban on agricultural imports reduced GDP in the short-term by 1-1.5 per cent. In the medium term the loss was estimated at 9 per cent (Nelson 2017, p. 8). Gurvich & Prilepskiy (2015) estimate sanctions reduced GDP by 2.4 per cent 2014-2017. They take account of both direct and indirect effects such as higher uncertainty and country risk caused by sanctions. The effect came mainly from the financial restrictions on key state actors, such as state banks, who could not raise loans on international capital markets. In later work on this issue, Gurvich & Prilepskiy (2018) get a more positive GDP estimate, a decline of 1.9 instead of 2.4 per cent. The smaller decline of GDP is mainly explained by reallocation of resources from non-tradeable to tradeable sectors that occurred because of the rouble depreciation

Despite the fact that the effect of the oil price drop on GDP was much higher in the short- term, the uncertainty that the sanctions have created, together with the general slow-down of the Russian economy, has long-term effects on the attractiveness to invest in Russia and to conduct business activities in the country. The import substitution policy that Russia reinforced as part of the protective measures is another factor that has negative repercussions on Russia's attractiveness for foreign businesses and trade. It also risks to slow Russian growth further by abolishing competition from abroad, nourishing monopolies and raising prices (see further Berezinskaya & Vedev 2015; Faltsman 2015; Korhonen et al. 2018, p. 6).

Effects on the sender countries

Earlier contributions into the area of effects of sanctions on the sender countries are not as common as those discussing the targets, but e.g. Irwin (2005) and O'Rouke (2007) analyse the effect on US GDP in cases when the US has imposed sanctions on different countries. These studies look at trade losses and commodity price changes.

In the case of the ongoing EU sanctions against Russia, effects on the EU sender countries are discussed in a report of the EU Directorate General for External Policies Policy Department (DG EPPD 2017). The report analyses effects on the EU as a whole and on individual member states. This report finds that EU exports to Russia declined by 20.7 per cent annually 2013-2016, which is in sharp contrast to the annual increase by 20 per cent the four proceeding years (DG EPPD 2017, p. 6). The study attempts to isolate the effects of sanctions from other factors and concludes that sanction-induced export losses for the EU amounted to 11 per cent of total EU exports 2014-2016 (DG EPPD 2017, p. 40). The total decline of export was 39 per cent (Eurostat 2018), which means that 32.4 per cent, or about a third of EU's export decline 2014-2016 may be attributed to sanctions and countersanctions.

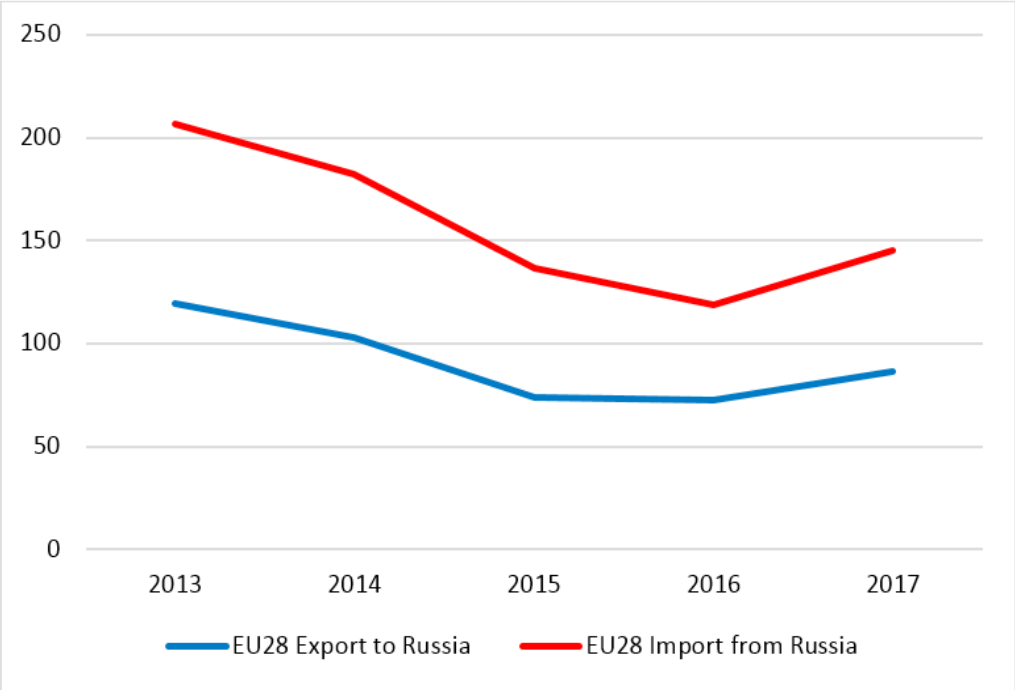
Among other recent works, Crozet & Hinz (2016) analyse all EU sender countries and France in particular. A main conclusion of this study is that it is trade in non-sanctioned goods that explains most of the fall in trade between Russia and the EU. Western sanctions only targeted armament, dual-use goods and oil exploration equipment. Trade in these goods are difficult to measure but estimates indicate that they constitute only a small fraction of EU-Russia export and have not affected the overall outcome. Several branches may have been affected by the financial sanctions that could have affected trade finance in a general situation of capital shortage. Giumelli (2017) looks at redistributive effects of the sanctions by analysing individual countries export flows to Russia and effects on specific groups of goods and services according to the STIC. This study finds that the impact of sanctions on the sender EU member states is mixed. Among countries that have been hit hard are Germany, Italy, Finland and Hungary, while Luxemburg, Greece and Sweden have been much less affected.

3. Trade between Russia and the EU

EU and Russia have been close trading partners since independence and sanctions affect both parties. In 2013 Russia was the EU's fourth largest trading partner with 7.7 per cent of EU's total export after the USA, Switzerland and China (DG EPPD 2017, p. 6). Between 2013 and 2017 the EU's export to Russia declined from €119.5billion

(bn) to €86bn, i.e. by €33.3bn, or 28 per cent.[2]During the same period the EU's import from Russia declined from €207bn to €145bn, a decline of €62bn, or 30 per cent (Eurostat 2018). Yet, in 2017 the EU was still Russia's largest trading partner with 42.4 per cent of Russian export. EU import from Russia has been dominated by hydrocarbons, about 75 per cent is minerals fuels and related products (Giumelli 2017, p. 1067). EU exports to Russia have been much more diversified. About 25 per cent have been machinery, 23 per cent manufactured goods[3] and 17 per cent chemical products (Eurostat 2018).

Figure 1 Export to Russia from the EU and import from Russia to the EU, *billion €*



Source: Eurostat (2018)

Thus, both export and import have declined by around 30 per cent but in nominal terms for import this represents a higher negative value since the EU has had a longstanding trade deficit with Russia. Import from Russia has exceeded export to Russia at least since 2009. It is the fall in exports that has affected the EU most. It should be emphasised again that sanctions do not explain all of the drop in trade, already in 2012 trade between the EU and Russia had begun to decline, and as was noted above, the DG EPPD study finds that about a third of export decline 2013-2016 may be attributed to sanctions. As is shown in Figure 1, in 2013, before economic sanctions were imposed in July 2014, trade fell due to the drop in the oil price, the depreciation of the rouble and the general fall of Russian economic growth, which, besides the drop in the oil price, is caused the lack of internal reform of the Russian economy.

The European Commission estimated the cost of sanctions for the EU to €40bn (0.3 per cent of the EU GDP) in 2014 and €50bn (0.4 per cent of EU GDP) in 2015. In addition, it was anticipated that the Russian food ban would cost the EU €5bn (DG EPPD 2017, p. 11). A report by the Russian Academy of Science's Institute of Forecasts estimates the total effect on the EU economy to 0.5 per cent of EU GDP and that on Russia's economy to 8-10 per cent but this could be reduced if the Russian government would introduce policy measures to help actors adjust to the new situation (World Economic Association 2014).

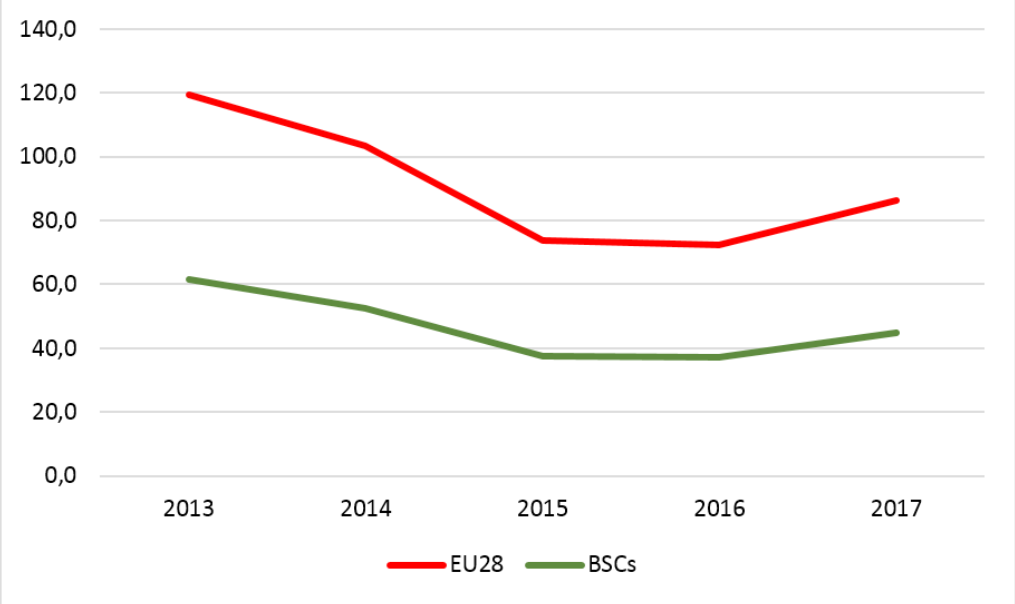
It is between 2013 and 2016 that the major fall in EU's export to Russia took place and it fell by 39.4 per cent or €47 billion. After 2016 export started to recover and the accumulative result 2013-2017 is a total fall in export to Russia of 16.6 per cent, or €17 billion. Thus just in one year 2016-2017, the EU recovered €30bn of its previous export losses (Eurostat 2018).

2 Russia's imports fell by over 40 per cent 2013-2016 (Rosstat 2018), which means that many countries including China have experienced export losses to Russia.
3 Sum of SITC groups 6 & 8.

4. Effects on trade with the Baltic Sea countries

The share of the BSCs in EU exports to Russia was 51.6 per cent in 2013 and 52.1 per cent in 2017, which means that the share has remained stable, which is an indication of that the BSCs have lost export proportional to other EU countries. The total value of the BSCs' total export to Russia has fallen by 15 per cent, or €8bn, 2013-2017. As for the EU as a whole, a marked recovery took place for the BSCs 2016-2017. If the results for 2013-2016 are evaluated, the BSCs lost as much as 39.8 per cent, or €24.5bn of its export to Russia (Figure 2), but in 2017 export recovered, and the loss between 2013-2017 was 27 per cent, or €16.8bn.

Figure 2 EU's and BSCs' export to Russia 2013-2017, *billion €*



Source: Eurostat (2018)

Note: BSCs stands for Baltic Sea countries that are in the EU: DE, DK, FI, EE, LT, LV, PL, SE

Germany is the largest EU exporter of goods to Russia, with an export value of €26bn. Of the BSCs, Germany has lost most in export to Russia in value terms, €9.9bn, between 2013 and 2017 (see the appendix). However, in percentage terms the loss is 23.6 per cent, which is under the EU average of 28 per cent. Finland is the second country with regards to nominal export loss with €1.9bn less in export in 2017 compared to 2013, which corresponds to a drop of 36.1 per cent. Poland is third with a loss of €1.9bn, which corresponds to a percentage loss of 23.6 per cent.

In order to further investigate the changes in exports from different countries, export is disaggregated by the Standard International Trade Classification (SITC) and the development of exports from different sectors is studied for each BSC.[4] The data is taken from the statistical office of the EU, Eurostat (Eurostat 2018). The SITC sectors are listed in Table 1.

4 The countries are discussed in the same geographical order as was used in the Introduction: clockwise around the Baltic Sea from north east to west.

Table 1 Standard International Trade Classification (SITC) sectors

0 Food and live animals	5 Chemicals and related products
1 Beverages and tobacco	6 Manufactured goods classified chiefly by material
2 Crude materials, inedible (except fuels)	7 Machinery and transport equipment
3 Mineral fuels, lubricants and related materials	8 Miscellaneous manufactured articles
4 Animal and vegetable oils, fats, waxes	9 Commodities and transactions not classified elsewhere

Source: European Union (2018)

Finland

In 2013 Finland had 4.5 per cent of total EU export to Russia and 8.7 per cent of the BSCs' total export. Finland lost 36 per cent of its export to Russia between 2013 and 2017 and its share in total EU export to Russia fell to 4 per cent and that of the BSCs' export to 7.6 per cent. SITC 0 food formed 7.6 of Finland's export to Russia in 2013, and it more than halved to 3.2 per cent 2017. The value of food export had fallen by 73 per cent, or €0.3bn between 2013 and 2017. Machinery is Finland's biggest export product and its export fell by 16 per cent. Other prominent export good also fell significantly, for example, chemicals and manufactured goods declined by 40 and 32 per cent respectively 2013-2017 (Figure 3).[5]

Estonia

Estonia had 1.2 per cent of EU export in 2013 and 2.3 per cent of the BSCs' export. In 2017 the respective figures were slightly lower, 1.1 and 2.1 per cent. Estonia's total export to Russia had declined by 34 per cent or €0.5bn by 2017. Machinery is Estonia's most important export goods and it declined dramatically in 2014-2016 by 46 per cent but the accumulative change 2013-2017 shows a more modest decrease of only 19.7 per cent for the whole period. As a result, machinery as a share of Estonia's export to Russia has increased from 39 per cent 2013 to 47 per cent 2017. Export of food and beverages have suffered heavily with declines of 47 and 94 per cent respectively, and mineral fuels have met a similar fate with a decline of 86 per cent. However, animal and vegetable oils has increased significantly by a factor 14 (Figure 4).

Latvia

Latvia is the BSC that has suffered least from decreases in exports. The total decline 2013-2017 is but 2.5 per cent. However, as is seen in the appendix, the country suffered a significant decline 2015-2016, but it has managed to come back to its former export level in 2017. Latvia had 1.5 per cent of EU total export to Russia in 2013 and 2.9 per cent of the BSCs' export. In 2017 these shares had risen slightly to 2 per cent and 3.8 per cent. Beverages and machinery are Latvia's most important export goods. Export of beverages rose 2013-2017 by 12.7 per cent. Export of machinery has been almost constant. Export of chemicals rose by 34 per cent and of miscellaneous goods by 12 per cent. Like other BSCs Latvia has suffered from a sharp decline in its food export that fell by 70 per cent 2013-2017. Export of mineral fuels and animal and vegetable oils have also declined (Figure 5).

Poland

In 2013 Polish export to Russia corresponded to 6.8 per cent of total EU export to Russia and 13 per cent of the BSCs' total export to Russia. In 2017, these shares had increased slightly to 7.2 and 13.8 per cent, but Poland's export to Russia had decreased by 23.6 per cent in 2017, or €1.9bn, compared to 2013. Poland exports food to Russia and the export of food declined by 66 per cent 2013-2017. Animal and vegetable oils decreased by 58 per cent and machinery by 29 per cent. However, the exports of crude materials and chemicals have increased (Figure 6).

Germany

In 2013 Germany had 30 per cent of EU exports to Russia and 58 per cent of the BSCs' exports (see the appendix). The shares are pretty much the same in 2017, but in nominal terms Germany's export is €9.9bn lower now compared to before the trade distortions began. The appendix shows that the lion's share of Germany's exports consists of SITC 7 machinery. Export of machinery declined by almost 50 per cent 2013-2016, but it recovered 2017 resulting in a total decline of 32 per cent 2013-2017. The second largest group of goods is SITC 5 chemicals. Export of chemicals

5 This section is based on the SITC data in Eurostat (2013). All figures are found in the Appendix.

declined only by 9 per cent 2013-2017. In addition, Germany experienced a sharp decline 2013-2017 in their food exports (43 per cent), mineral fuels (40 per cent), animal and vegetable oils (86 per cent) and in the last group, commodities and transactions (46 per cent) (Figure 7).

Sweden

Sweden's share of export in the EU's total export to Russia is constant between 2013 and 2017, 2.3 per cent, and the same is true for its share of the BSCs' export to Russia, 4.3 per cent. However, Sweden's export to Russia has declined by 29 per cent or €0.8bn 2013-2017. Sweden's export to Russia consists primarily of machinery and manufactured goods. These types of export goods have declined by 38 and 12 per cent respectively between 2013 and 2017. However, there are several types of goods that have increased 2013-2017 e.g. beverages (51 per cent), crude materials (19 per cent), chemicals (23 per cent), animal and vegetable oils (up by a factor 4), commodities and transactions (increase by a factor 7). Export of these goods is smaller by value but the increase compensates to some degree for the losses in the primary export goods (Figure 8).

Lithuania

Lithuania had 4.1 per cent of EU export to Russia and 7.9 per cent of the BSCs' exports in 2013. In 2017, these shares had increased to 4.5 per cent and 8.7 per cent. Lithuania lost 19.5 per cent, €0,9bn, of its export to Russia 2013-2017. Lithuania is unique in that it had an increase of export in 2014, which is explained by a rise in SITC 7 machinery that year. In 2015 and 2016, however, Lithuania experienced a deep decline. Food export declined by 85 per cent and as shown in the appendix, it has not recovered. Lithuania has experienced increases of export of crude materials (15 per cent), chemicals (58 per cent) and other commodities and transactions (36 per cent) (Figure 9).

Denmark

Denmark had 1.3 per cent of EU trade with Russia in 2013 and 2.5 per cent of the BSCs' exports. These shares declined to 1.0 per cent and 1.8 per cent in 2017. Denmark lost 53 per cent of its export to Russia 2013-2017 and its largest export was in machinery, which declined by 38 per cent. Foods decreased by 68 per cent and chemicals that was Denmark's second largest export good declined by 56 per cent. Beverages has a positive sign but is a small category (Figure 10).

What factors could explain the differences between the countries?

Diversity of export appears to play a role. Machinery is EU's most important export good and countries having had a high share of machinery in the export mix have experienced substantial decreases. Countries having had relatively high shares of chemicals, crude materials and beverages in their export mix have fared better since these goods have declined much less. Machinery export has probably been affected by a long range of factors, e.g. lower Russian demand due to the economic decline, trade finance disruptions as a consequence of financial sanctions and to some degree by the Russian import substitution policy. Some BSCs may have had national export credit programmes to overcome temporary trade finance difficulties, which could explain some of the difference.

Countries having had a high share of food in their export have suffered significantly of the Russian food embargo. Export of food has not recovered to former levels and with Russia's strategy on food safety and ambition to increase the level of self-sufficiency, the lower level will probably prevail.

5. Factors explaining the decline in BSC exports

The decline in food and to some extent beverages is clearly due to the Russian food embargo which was imposed in 2014 (Ukaz 2014). In total, BSCs lost 64 per cent of their food export 2013-2017 (Table 2), which means that the level is now €1.7bn instead of the pre-crisis level of €4.7 bn. The share of food in the BSCs' export has halved from 7.8 per cent to 3.8 per cent. The countries that have been most affected by this are Finland, Poland, Denmark, Estonia, Latvia and Lithuania. The decline in food export has only been reversed to some degree in Denmark, the rest of the countries have stabilised at a level which is just a fraction of what it was previously. The EU regulatory framework restricts individual member states from subsidising producers and it has been difficult to investigate if there have been some types of support programmes for the agricultural producers that have suffered from the Russian embargo. A strategy of redirecting food exports to other countries seem to have been employed in some countries.

Machinery is a primary export good for most BSCs accounting for 49 per cent of the BSCs' export to Russia in 2013 and 48 per cent in 2017 (Table 2). Despite the stable share in the total BSCs' export, machinery exports

declined by 28.8 per cent, or €8.6bn. This means that machinery export is now at a level of €21bn instead of €30bn. The reasons for the decline in these exports are several. The downturn of the Russian economy may have halted Russian import of machinery due to that clients' demand decreased. The client's lack of access to credit and finance to pay for their purchases, because of the economic downturn and the financial sanctions on Russian state banks that created a general shortage of capital in the whole economy, which affected trade finance as a side effect, could be another reason. Also, suppliers may have become hesitant regarding the clients' ability to pay, which could have contributed to the downturn of exports, particularly during the first years. Many sender countries have state programmes offering export guarantees to reduce the risk for exporters but many suppliers may not have been familiar with such programmes because earlier their Russian partners could be trusted to meet obligation. For various reasons these programmes could not be used to mitigate the decrease in export, or programmes were not relevant or proposed deals did not meet criteria.

The EU and US export ban on armament, dual-use goods and equipment for advanced oil exploration that might be part of SITC 8 manufactured goods and SITC 7 machinery, could have affected some of the countries, however, with the aggregated data available in this study this is not possible to investigate further. Korhonen et al. (2018, p. 13) find that the total value of the EU's exports of oil exploration and production technologies to Russia amounted to only 0.3 per cent, €350million, of total export to Russia in 2013. Thus, any decline in export in these products would not affect aggregate results. In addition, oil exploration on the Arctic shelf has been inhibited by the low oil prices since the costly exploration would not be profitable.[6]

Chemicals is the second largest export from the BSCs to Russia with 15 per cent of total export in 2013 and 19 per cent in 2017 (Table 2). Export of chemicals has decreased only by 6.6 per cent, or €0.6bn, 2013-2017, and because the sharper decrease in other SITC groups, its share in BSC export has increased. One reason for why the Russian demand for chemicals has been maintained could be the priority given to the strive for self-sufficiency in Russia's food security doctrine and the import substitution programme. Maybe some chemicals have been necessary to import to boost agricultural production. The import substitution policy has led to growing agricultural output and export.

Uncertainty regarding the scope of the different sanctions and how the restrictions on people, legal persons and finance imposed by the EU and US should be interpreted could be an important factor that distorted trade relations from the start of sanctions. Suppliers may have been uncertain regarding which actors and goods were sanctioned and afraid of legal consequences of working with business partners that could be involved with sanctioned entities. Crozet & Hinz (2016, p. 29) find that export participation drops suddenly every time new restrictions were announced. This indicates that introducing restrictions both in the beginning and later has generated uncertainty and instability in business relationships that disturbs trade. In fact, in 2014, the European Commission appears to have recognised the problem of interpretation of sanction regulations and issued a note clarifying aspects of the regulations including those relating to the provision of financial services of certain Russian banks. This also included clarifications of EU actors' legal behaviour towards Russian sanctioned entities (Crozet & Hinz 2016, p. 37).

After the deep drop of export 2015-2016, all BSCs and all product groups (except SITC 9) show a significant increase in 2017 (Table 2). The Russian economy went from contraction to a modest growth of 1.5 per cent in 2017, which may have affected BSC export positively, but otherwise nothing changed. There has been no alternation of the sanctions on either side. This points at that more certainty regarding the sanction environment and the fact that economic actors have got familiar with the sanction rules and regulations could have contributed to a positive export development, while in the beginning difficulties to interpret rules may have caused uncertainty and hesitation to proceed with business deals. In addition, the Russian financial system outside the sanctioned state banks may now have adapted to the new situation and is able to provide more trade finance and liquidity to companies.

6 Korhonen et al. (2018) cite some estimates of armament and dual-use goods exports, which are incomplete and they find very uncertain, and therefore are not cited here.

Table 2 Yearly and cumulative change in BSC export to Russia according to SITC groups 2013-2017, *per cent*

	2014	2015	2016	2017	2013-2017
0 Food	-31.3	-53.0	-7.4	20.4	-64.0
1 Beverages	-4.0	-32.5	3.6	31.8	-11.5
2 Crude materials	-25.5	-5.7	6.7	5.4	-21.0
3 Mineral fuels	-27.6	-23.1	-14.9	17.7	-44.3
4 Animal and veg oils	-66.9	-34.0	24.2	33.0	-63.9
5 Chemicals	-6.1	-14.6	2.4	13.8	-6.6
6 Manufactured goods	-9.2	-25.4	-3.9	19.6	-22.2
7 Machinery	-17.5	-32.4	-0.6	28.5	-28.8
8 Other manufactured	-10.9	-29.1	-1.5	19.0	-26.0
9 Commodities and transactions	0.6	4.6	-10.0	-45.1	-48.0
BSC total	-15.1	-28.5	-1.0	20.8	-27.3

Source: Eurostat (2018); author's calculations

Note: BSC stands for the Baltic Sea countries.

6. Are there winners and losers around the Baltic Sea?

The development of different SITC groups shows that producers that export food to Russia have been hit hard by Russia's general protectionist agro-food policies and the countersanctions. Despite an increase in BSC food exports 2017, food producers have lost 64 per cent of the export since 2013 (Table 2). Export of animal and vegetable oils, fats, waxes have also decreased by over 60 per cent. Mineral fuels, manufactured goods and machinery, which are the main export goods to Russia, have experienced declines of 20-30-40 per cent (Table 2). Together manufactured good, machinery and other manufactured goods represent 71 per cent, €12bn, of the BSCs' total export decline during the period.

Sectors that have fared better during the period are chemicals that have declined by only 6.6 per cent, beverages 11.5 per cent and crude materials 21 per cent (Eurostat 2018).

Ranking the different countries with regards to how they have managed the declining export to Russia may be done according to percentage decline of export or according to the nominal decline. In Table 3 the percentage decline in exports to Russia 2013-2017 is presented. It is a relevant measure since it relates the decrease to the original export value. To assess the effect, one also needs to have an idea of the relative importance of the exports to Russia in each country's total exports. In Table 3 the decline in exports to Russia is compared to Russia's share in each country's total (extra-EU) export in 2013 and 2017.

Table 3 Ranking of BSCs according to percentage decline in exports to Russia, Russia's share of total export, growth of total export* 2013-2017, *per cent*

Rank according to percentage change	Country	Percentage decline of export to Russia 2013-2017	Russia's share in total export 2013	Russia's share in total export 2017	Growth of total export 2013-2017
1	Latvia	- 2 .5	48.1	41.0	14.4
2	Lithuania	-19 .5	44.5	35.6	0.6
3	Poland	-23 .6	20.9	14.9	7.2
4	Germany	-27 .6	7,6	4.9	13.1
5	Sweden	-28 .8	5.1	3.5	3.6
6	Estonia	-34 .0	39.5	25.6	2.0
7	Finland	-36 .1	21.4	14.1	-2.8
8	Denmark	-47 .5	5.1	2.4	14.0

Source: Eurostat (2018)

Note: *Extra-EU export

The country that has the lowest percentage decline of export is ranked first, which is Latvia that has lost only 2.5 per cent of its export to Russia. Latvia had the largest share of export to Russia, 48 per cent, among the BSCs in 2013 and it has kept this position 2017 with a decline of just 7 percentage points. The second rank according to percentage decline is Lithuania with 19.5 per cent. Lithuania had a high share of export to Russia in total exports 2013, 45 percent, which had declined by almost 10 percentage points in 2017, which indicates that the country has redirected some trade to other countries. The third rank is held by Poland with 23.6 per cent of loss of export to Russia. Poland had a lower share of Russia in total export 2013, 24 per cent, which had decreased to 15 per cent in 2017, and since total export has grown it indicates that Poland has increased trade with other countries.

On fourth place comes Germany, with a decline of 27.6, which is close to the EU and BSC averages. For Germany, export to Russia represented only 8 per cent of total export in 2013, and the share has declined further to 5 per cent. Sweden is next, with a decline in the average range of 28.8 per cent. Russia had a small part of Swedish export in 2013, 5 per cent, and the share fell to 3.5 per cent in 2017. The export declines of Estonia and Finland are clearly higher than the average, 34 and 36 per cent respectively, which gives them the ranks 6 and 7. Estonia had the third highest Russia export share in 2013, almost 40 per cent, which declined to 26 per cent in 2017. Finland's share declined from 21 to 14 per cent. This shows that the countries have been able to redirect part of their export to other countries to compensate for the losses in trade with Russia. On the last place is Denmark that has managed worse of all BSCs and lost almost half of its export to Russia. However, as in the Swedish case, Russia is not a very important export country for Denmark and its share in Danish export has halved from 5 to 2.4 per cent (Table 3).

Commenting on winners and losers, the BSCs clearly show a varying degree of decline in export to Russia, and a varying degree of decline in their export dependence of Russia. Latvia has the lowest export decline, but is also the country with the highest share of Russia in their exports both in 2013 and 2017. Should Latvia be considered a 'winner' in this situation? Or are Lithuania and Estonia better off, having experienced larger decline of their exports to Russia but, at the same time, they have been able to decrease their high share of Russia in their total export and increased the share of trade with others? Germany and Sweden have declines of nearly 30 per cent, but for these countries export to Russia is quite small in their total export. The same is true for Denmark that, with its nearly 50 per cent decline, would be considered a 'loser' if the small share of Russia in total export is not taken account of.

The fact that the BSCs have been affected quite differently during the period 2013-2017 reflects that they are different economies with different trade dependencies of Russia. Most economies have experienced growth in their total extra-EU trade during the period but to different degrees (Table 3). Who is a winner and or a looser is therefore difficult to assess. In order to research this issue properly one needs to look in detail at the development of total export of each individual BSC and their trade policies. What may be said is that Russia is not a fully reliable trading partner and a high dependence on Russia in exports is a risk. The crisis following Russia's aggression towards Ukraine is not the first occasion[7] when Russia's behaviour complicates trade relations. Some BSCs are now

7 Reference to the Russian financial crises 1998 and 2009 and to different trade-barriers that Russia uses temporarily.

exporting less to Russia and have been successful in redirecting trade to other, more reliable, trading partners, which makes them winners in the sense that they are less dependent of Russia.

7. Conclusion

When sanctions are studied the focus is usually on the effects on the target country, because sanctions should create some change of behaviour of the target, and not so much on the sender countries. This is reflected in the sanction literature, which is more concerned with the effects on the target than on the senders. In case of the EU sanctions against Russia, some studies have appeared on the effects on the senders. Unlike the US, the EU is a multilateral sender, acting as one in consensus when it comes to imposing sanctions, but the consequences of sanctions and countersanctions vary considerably among the different member states.

This article finds that the effect on individual BSC's export to Russia 2013-2017 varies quite significantly. Latvia is the country that has experienced the least export loss in relative terms, 2.5 per cent, followed by Poland with just under 20 per cent. German and Sweden lie around the EU average of 28 per cent. Estonia and Finland have lost over a third, while Denmark lost almost half of its export to Russia during the period. The countries having lost a smaller share could be considered 'winners' and those under the EU-average 'losers'. However, when the share of Russia in individual countries' export is taken into account the picture becomes more complicated. In 2013, Russia accounted for only 5 per cent of Denmark's and Sweden's export, which means that decreases in the export to Russia do not affect their total export much. The same is true for Germany that started out with a share of 8 per cent that fell to 5 per cent. German's total export grew substantially, which indicates redirection of trade to other countries.

Latvia, Lithuania and Estonia had the highest shares of export to Russia in their total extra-EU export in 2013, 40 per cent and over, which means they have been more sensitive to declines in the exports to Russia. Latvia has kept a high share, while Lithuania and Estonia have decreased theirs, but the growth in their total export is low. Poland and Finland had about 20 per cent of their export to Russia and have been able to cut it to about 14 per cent. Poland shows growth in total export, but Finland's total export decreased slightly during the period. Therefore, exactly how to interpret the relative losses in export requires deeper knowledge of the individual BSC's trade patterns and policies than what has been presented here.

Analyses of the BSCs' STIC data show that machinery is the main product exported to Russia and that about a third of this export has been lost. Machinery together with manufactured goods constitute 70 per cent of the export loss. Export of chemicals has been only marginally affected. Also crude materials and beverages show a moderate decrease.

Almost the total export drop is considered to regard non-sanctioned goods. The factors behind the decline in the export of machinery and manufactured goods are several. The impact from sanctions that could have occurred is that the Western financial sanctions, restricting Russian state banks and big enterprises to raise loans on international capital markets, could have distorted trade finance due to the general capital shortage resulting on the Russian market. However, the general down-turn of the economy and depreciation of the rouble probably had even larger negative effects on Russian clients' demand. Effects from the export embargo on armament, dual-use gods and oil exploration equipment are difficult to investigate but are considered marginal in the total decline. Russia's import substitution programme may have affected some products.

The decline in food export may largely be attributed to the Russian food embargo imposed in 2014. Export of food from the BSCs more than halved and individual countries, such as Finland, Poland, Lithuania, and Denmark, have suffered substantial export losses. The food embargo is part of Russia's protectionist import substitution policy, which aims at making Russia more self-sufficient in many areas. Food security is defined as food being domestically produced. The food embargo has resulted in increased food production and higher food prices in Russia. Since food is seen as a security issue, it is probable that Russia will keep the embargo or impose tariff or non-tariff barriers to protect domestic agriculture and food industry in the future.

The Russian market has been seen by many as a great opportunity for expanding business and trade. Unfortunately, Russia's economy is plagued by institutional shortcomings, such as the lack of rule of law and corruption, and the macroeconomic development has taken sudden negative turns over the years that have affected foreign trading partners negatively. Since 2012 economic growth has fallen and forecasts for the nearest years lie around 1.5 per cent. The situation after the aggression towards Ukraine in 2014, with further economic downturn after the halving of the oil price, sanctions and counter sanctions, import substitution and the depreciation of the rouble

has undoubtedly decreased Russian demand for foreign goods. It follows that trade with Russia does not only come with opportunity but also with serious risk. The BSCs have already started to decrease Russia's share in their export. A winning strategy would be to continue in this direction and opt for expanding trade with other trading partners.

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Appendix

Export of BSCs to Russia[8]

Figure 3 Finland's export to Russia, *billion €*

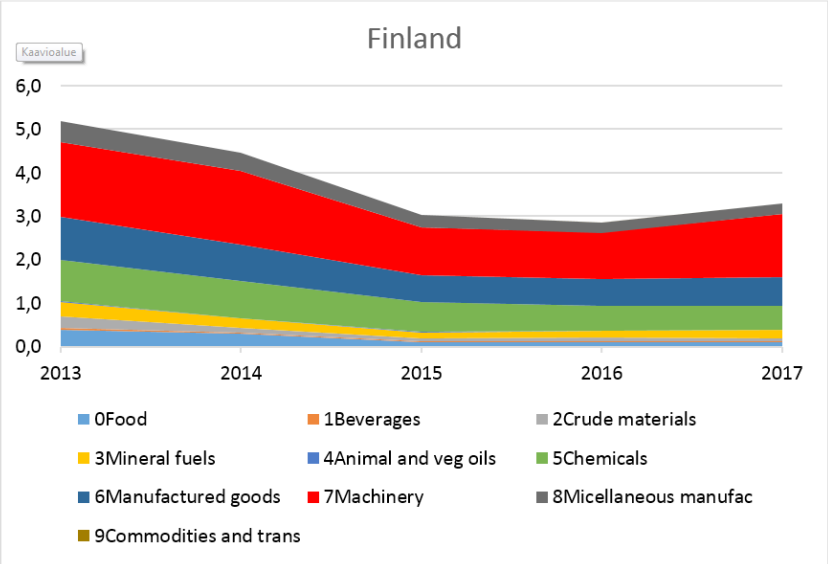
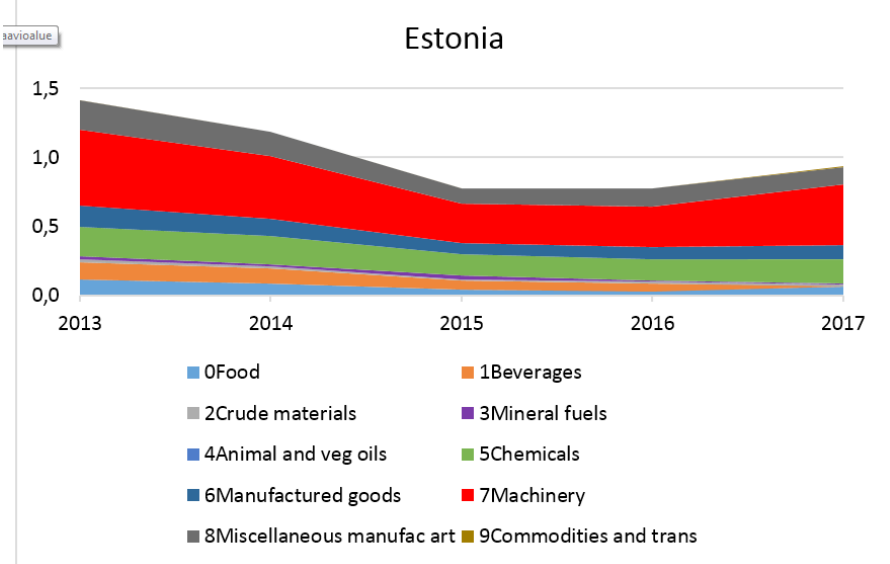


Figure 4 Estonia's export to Russia, *billion €*



8 All diagrams are based on SITC data found at DS-018995, Eurostat 2018, EU trade since 1988. Available from: http://appsso.eurostat.ec.europa.eu/nui/show.do?query=BOOKMARK_DS-018995_QID_23F053B6_UID_-3F171EB0&layout=PERIOD,L,X,0;REPORTER,L,Y,0;PARTNER,L,Z,0;PRODUCT,L,Z,1;FLOW,L,Z,2;INDICATORS,L,Z,3;&rankName1=REPORTER_1_2_0_1&rStp=&cStp=&rDCh=&cDCh=&rDM=true&cD [13 December 2018].

Figure 5 Latvia's export to Russia, *billion €*

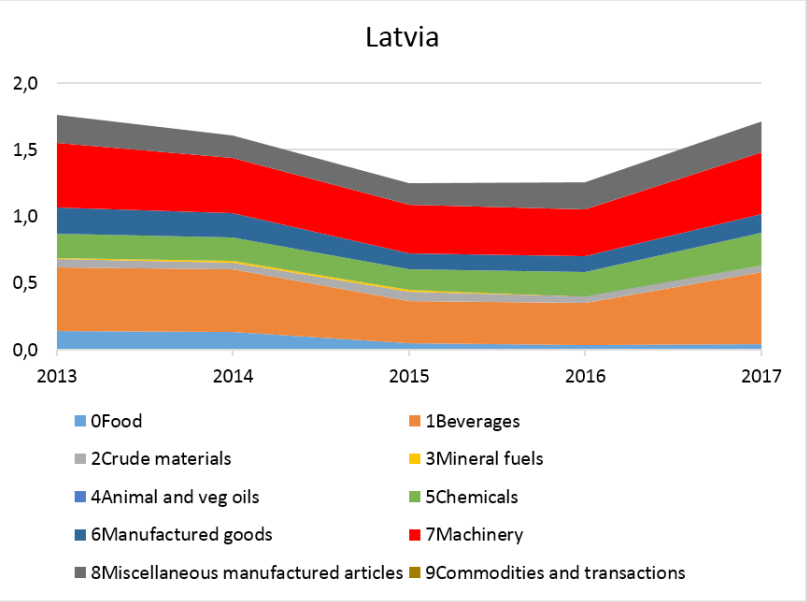


Figure 6 Polish export to Russia by SITC, *billion €*

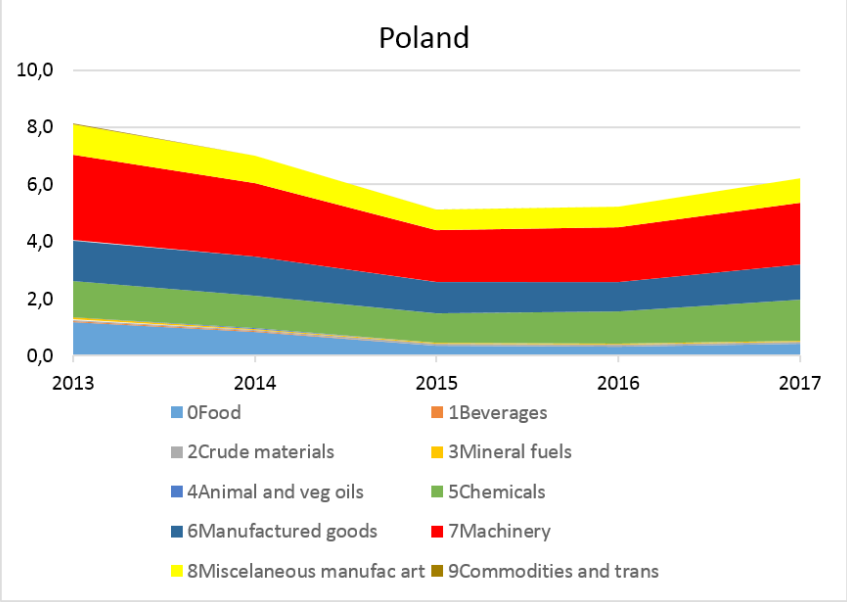


Figure 7 German export to Russia by SITC, *billion €*

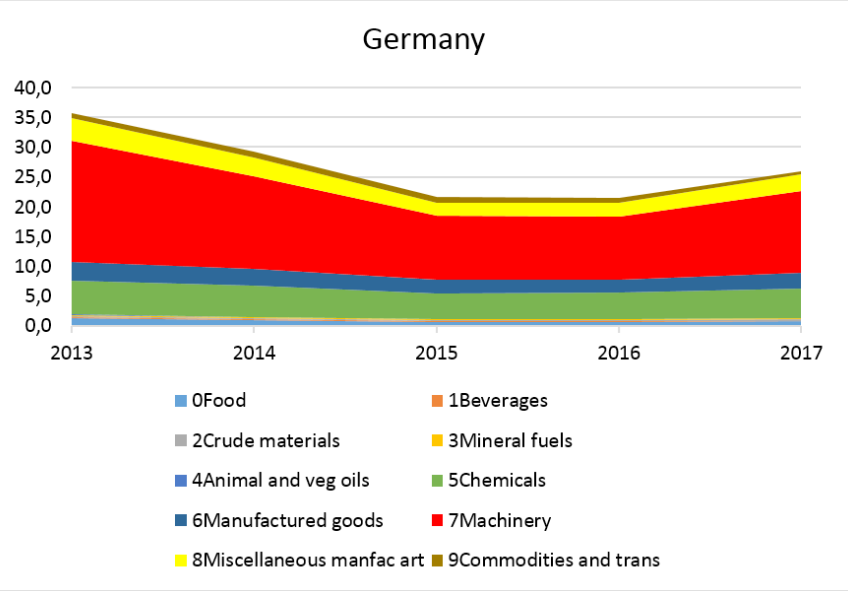


Figure 8 Sweden's export to Russia, *billion €*

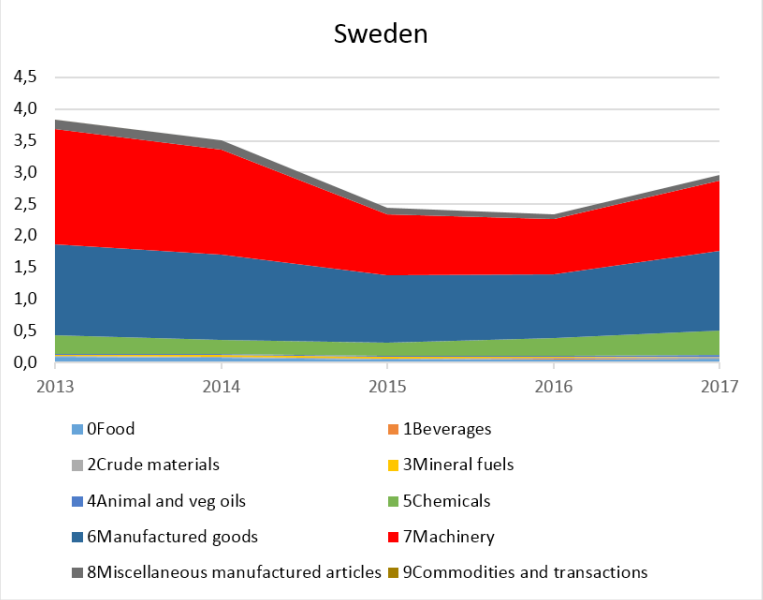


Figure 9 Lithuania's export to Russia by SITC, *billion €*

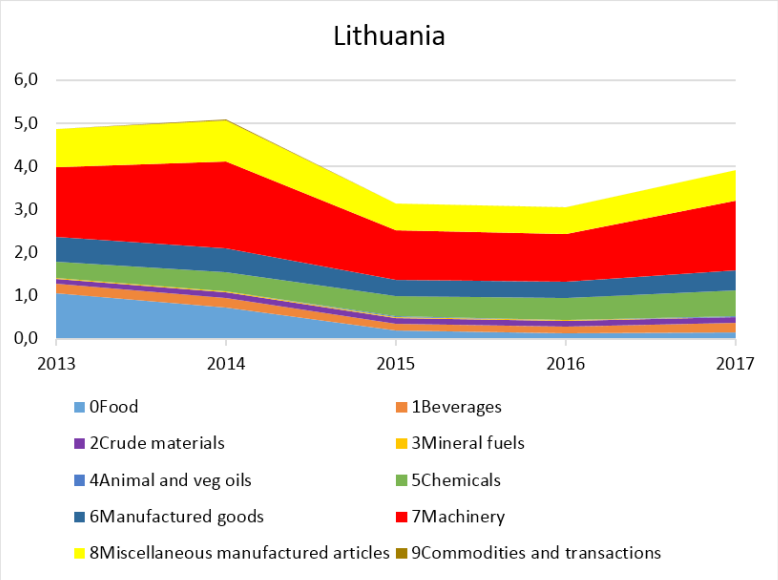
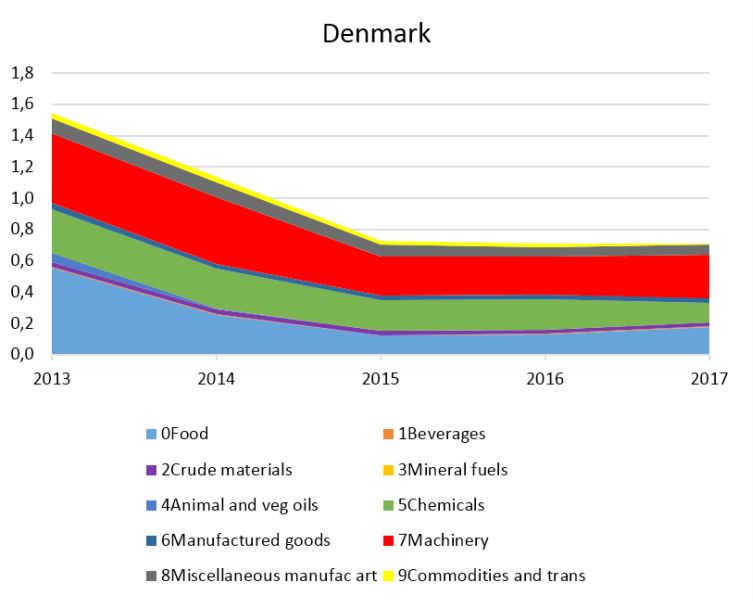


Figure 10 Denmark's export to Russia by SITC, *billion €*



Source: Eurostat (2018)

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