

## TRADE RELATIONS BETWEEN LITHUANIA AND RUSSIA IN CONTEXT OF INTEGRATION PROCESSES

**Leonas Zitkus**

*Kaunas University of Technology  
Faculty of Social Sciences, Arts and Humanities  
Institute of Europe  
Mickevičius str. 37, Kaunas, Lithuania  
e-mail: leonas.zitkus@ktu.lt*

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*The aim of the paper is to analyze the influence of integration processes on the formation of current Lithuanian-Russian trade relations and, on the basis of the analysis, to formulate insights on their specific features. The first part of the paper deals with the nature of the EU common commercial policy by stating that within the integration group two categories of international economic relations are formed, i.e. internal and external. Internal relations are based on the principles related to free trade, and external relations seek to protect internal market from the effect of third parties, bigger than allowed by WTO, i.e. protectionism. In other words, the countries of integration group are opposed to third parties outside the boundaries of the group. The second part is focused on the fact that Russia's attitude to European integration processes of the last two decades is negative. That attitude is expressed by Russia's strategic choice, i.e. closer cooperation with some older EU states rather than with the whole organization. That condition, together with peculiarities of mutual economic exchanges, determines that major changes in the development of EU- Russian trade relations are not to be expected. The third part of the paper offers some insights on Lithuanian – Russian trade relations. Based on the statistic figures and analysis of political documents, peculiar features of these relations are discussed, i.e. insufficient level of cooperation intensity, vulnerability of the relations and uncertainty of their perspective.*

**Keywords:** *trade relations, integration processes, commerce policy, bilateral agreements, tendencies.*

### Introduction

During the last several years, a supranational integration structure ranking second largest economy in the world has been formed in the major part of Europe. The power of the united European states as well as the policy of the majority of the world countries at the turn of the 20<sup>th</sup> and 21<sup>st</sup> centuries were focused on increasingly close economic cooperation acquiring various forms, i.e., from ordinary export/import operations to the formation of elaborate network structures. In that respect the EU exhibits abundant and intensive relations with third countries or their groups. EU external relations of different nature are a driving force for relations and processes, such as common economic growth, good neighbor policy, aid to developing countries or liberalization of international trade. In spite of different political and economic systems, the benefit received from those interrelations turns into the stimulus for strengthening and developing those relations including improvement of mutual trade relations.

According to the European Commission, international trade and EU common commercial policy contribute to the growth of influence of the group of those countries, and common mutual actions are supposed to support the EU interests in the third countries. The Commission has provided a sufficiently extensive framework of third-party relations, so that EU companies benefit as much as possible from global market. The EU integration processes constantly change the nature of the Union, however, in pursuing the cooperation policy the Member states have to observe the principles of mutual solidarity, since it is only because of solidarity that

Europe can achieve the goal declared in international forums, i.e. it can become the main vehicle for goods, services and capital markets and free trade.

It is rather difficult to define the Lithuanian-Russian Federation economic relations within that context. Moreover, these relations are paradoxical. On the one hand, the statistics of trade relations clearly show the trend of permanent growth. On the other hand, this growth proceeds in a very unfavorable political environment formed by three factors, i.e. painful and ambiguous historical experience, pro-Western orientation and Russian-Western antagonism as well as the tendency of the politicians of both countries to use severe and forthright rhetoric (Babičius, 2012, p.2). Actually, the background of communication was not alleviated by Russia's WTO accession.

In analyzing Lithuanian-Russian economic relations it is easy to give them a biased evaluation. Scientific objectivity requires employing economic interpretation. Economic ties between countries cannot be explained or generalized by only using figures illustrating mutual trade. To that end, world or regional economic and political tendencies lying behind ideology and statistics should be employed. This paper addresses the problem how Lithuanian - Russian trade is affected by European integration processes and Russia's attitude to them.

The **aim** of the paper is to analyze the influence of integration processes on the formation of current Lithuanian-Russian trade relations and, on the basis of the analysis, to formulate insights on their specific features.

The aim is pursued by addressing the following **objectives**:

- Revealing the nature of the EU common commercial policy and its role in third-party relations;
- Discussing the peculiarities of mutual EU – Russian Federation economic relations;
- Identifying features of economic relations determining their development trends.

Scientific **originality and practical significance** of the article:

- The ‘internal’ origin and orientation of EU common trade policy;
- Core differences in attitudes hindering normalization of EU-Russian economic relations;
- Insights into Lithuanian-Russian commercial relations are formulated.

The **research methods**: the analysis of scientific literature and official documents, secondary statistical analysis and synthesis of information.

### **Common commercial policy as the basis for trade relations between EU and third countries**

The provisions of the EU common commercial policy laid down in the legal acts of the primary and secondary law are a legal framework of trade relations between Member States and third parties. This policy is in operation on two planes. Firstly, while operating within the World Trade Organization (WTO), the Union contributes to the build-up and consolidation of the world trade system principles. Secondly, the EU concludes individual bilateral agreements, whereby the EU represents the interests of its Member States in the relations with the third parties or their groups by establishing trade regulations.

Commercial policy is a specific form of the government’s interference into trade relations within the international markets. Theoretically, two possible extreme cases of such interference are the following:

- Protectionism, i.e. the totality of factors, instruments, procedures, seeking to, firstly, protect the manufacturers of your country from foreign competitors and, secondly, to promote export of your country;
- Free trade formed and pursued under the conditions of supply and demand and fair competition.

Even though the provisions of EU common commercial policy are directed against protectionism, they fail to refer to the unconditionally free trade, since such approach may cause opposition from the governments of the interested countries based on the motives of general or economic security, morality or nature protection, etc. Nevertheless, unlike in a not too distant past, presently the regulation of EU third-party trade is not based on quantitative or fiscal barriers. And the European Union as a member of WTO encourages rejection of restrictions of that type. Currently international trade regulation measures making both transaction parties observe the rules of fair trade competition are stressed. Common commercial policy is a tool to enhance the influence of the EU on the international level, and joint actions of the EU Member States are meant to support the EU interests against the third parties (Commission..., 2008).

In spite of the clearly defined and outward- oriented field of common commercial policy, i.e. trade relations with non-Member States, the principles of that policy were formulated under the effect of integration processes within the European Union. Naturally, the origin of that policy lies not only in the

statements of the primary or secondary legal acts of the EU, but also, even primarily, in the very conception of economic integration.

The effect of integration in economics has been analyzed and the attempts to define it were being made for a long time: Fr. Perroux, W. Ropke, R. Aron, G. Myrdal, Ch. Kindlberger, A. Marshal, J. Tinbergen, R.F. Sannwald, J. Stohler, B. Balassa (Ladyga, 2001, p.20), outstanding economists of the past, took part in the discussion on the concept of integration. In their works the concept means very different things: it may be integration of the enterprise into a bigger concern, subjection of regional economy to seek the economic goals of the whole country and other actions related to integration. To define the developments in Europe, the integration definitions by Willem Molle (2006, p.8) are used: economic integration is gradual elimination of borders between independent states resulting in integral economy of the states. During the process of integration a uniform structure like a uniform organism covering a group of countries is formed. Such internal integrity determined by close economic relations is distinguished in the global economy; however, that distinguishing character does not imply breach of relations with the external world, but, rather, means transformation of management of these relations. Two categories of international economic relations are formed in the integration group, i.e. internal and external. Internal relations are based on free movement of goods, services, labor and capital (i.e. the principles contiguous to free trade), and external relations seek to protect the internal market from the effect of third parties which is bigger than allowed by WTO rules (i.e. protectionism). In other words, the countries or integration group are opposed to third parties beyond the borders of the group.

In this context one important feature is standing out. The said opposition is of a protective nature, i.e. this is how the protection of the group’s market from the competition of third parties occurs. This produces a question whether or not such group is legal in the light of the GATT/WTO requirements. In answering this question, Paragraphs 4 and 5 of Article 24 (The General Agreement on Tariffs and Trade, 1986, p. 41-42) are to be quoted:

The contracting parties recognize the desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration between the economies of the countries parties to such agreements. They also recognize that the purpose of a customs union or of a free-trade area should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories.

Accordingly, the provisions of this Agreement shall not prevent, as between the territories of contracting parties, the formation of a customs union or of a free-trade area or the adoption of an interim agreement necessary for the formation of a customs union or of a free-trade area; *Provided* that:

- (a) with respect to a customs union, or an interim agreement leading to a formation of a customs union, the duties and other regulations of commerce imposed at the institution of any such union or interim agreement in respect of trade with contracting parties not parties to such union or agreement shall not on the whole be higher or more restrictive than the general incidence of the duties and regulations of commerce applicable in the constituent

territories prior to the formation of such union or the adoption of such interim agreement, as the case may be; (b) with respect to a free-trade area, or an interim agreement leading to the formation of a free-trade area, the duties and other regulations of commerce maintained in each of the constituent territories and applicable at the formation of such free-trade area or the adoption of such interim agreement to the trade of contracting parties not included in such area or not parties to such agreement shall not be higher or more restrictive than the corresponding duties and other regulations of commerce existing in the same constituent territories prior to the formation of the free-trade area, or interim agreement as the case may be; and (c) any interim agreement referred to in sub-paragraphs (a) and (b) shall include a plan and schedule for the formation of such a customs union or of such a free-trade area within a reasonable length of time.

The above provisions of GATT mean that the existence of integration groups (not only of EU, but also NAFTA, MERCOSUR, etc.) does not distort (at least, at the present stage) the operation of the world trade system. The only condition is that the measures applied to protect the internal market of the group from the operation of the third parties should not be stricter than those taken earlier. The integration group, however, shall not take into consideration and, in any way, compensate competitive advantage gained by its manufacturers over those of the third parties due to the so-called long-term consequences of integration, i.e. the growth of efficiency or scale effect.

It is common knowledge that the EC integration level referred to as the customs union was reached in 1968. Since then (more exactly, since 1 July 1968) the countries of the Union were obliged to abandon their individual foreign trade policy and transfer their competences to the Union, so that it should represent their interests in relations with the third parties. It is accepted that the EC third-party trade relations were finally settled until 1 January 1970, and those with the block of the former socialist countries until 1 January 1975 (Zysk, Gromala, 2013, p. 16).

The basis for common commercial policy of the *acquis communautaire* is the Treaty of Rome (1957), Articles 110-116, which later with minor amendments was transferred to more modern versions of the Treaty. The Treaty of Rome and other that followed failed to define the concept of trade policy, however, in the preamble the signatories of the Treaty declared the intention to gradually eliminate the obstacles for international trade. Each institution tends to use its own interpretation of the concept of common commercial policy (Table 1). The European Commission uses instrumentalist interpretation, i.e., it regards all regulatory measures of the third-party trade as trade policy. The Council of the EU has adopted the purposive approach according to which commercial policy covers all measures designed to affect the foreign trade flows. Even the European Court of Justice failed to make a final decision on that issue. It legitimized the principle of extensive interpretation of common commercial policy, i.e., it declared that common commercial policy is the national foreign trade policy on the Union's level. The systemic-evolutionary interpretation, however, (also, legitimized by the European Court of Justice) stresses a close relation between the provisions of the common commercial policy defined in the treaties and the process of creation of the single market.

The common commercial policy principles drawn up in the Rome Treaty have remained unchanged until the present days. In the Maastricht Treaty establishing the EU, only a few changes were made, while in the secondary legal documents the rules of using policy implementation tools were modified several times. The modifications were caused by two things: changes related to the establishment of the internal market of the Union and the need to adapt to the requirements of GATT Uruguay Round. In the Nice Treaty (26.02.2001) some procedural changes in the international negotiations and signing of agreements, related to the division of competences between the Union and the Member States, were made.

**Table 1. Interpretations of the concept of common commercial policy**

Approach	Concept
Instrumentalist	Common commercial policy is all regulatory measures of third-party trade.
Purposive	Common commercial policy is measures designed to regulate the volume and trends of foreign trade flows.
Principle of extensive interpretation	Common commercial policy is the equivalent of national foreign trade policy on the Community level.
Systemic-evolutionary	Common commercial policy is both the tool and the consequence of a single market of the European Community.

Source: worked out by the author according to Zysk, Gromala, 2013, p. 17

In the present version<sup>1</sup> of the EU Treaty the fundamentals of common commercial policy are laid down in Articles 206-207 making up a separate chapter as well as in Article on general regulations of the Treaty. The objects of the trade policy regulated by the main Treaty are laid down in Article 207, Paragraph 1 (Consolidated version ..., p. C326/140):

“The common commercial policy shall be based on uniform principles, particularly with regard to changes in tariff rates, the conclusion of tariff and trade agreements relating to trade in goods and services, and the commercial aspects of intellectual property, foreign direct investment, the achievement of uniformity in measures of liberalization, export policy and measures to protect trade such as those to be taken in the event of dumping or subsidies. The common commercial policy shall be conducted in the context of the principles and objectives of the Union's external action.”

The sources of scientific (Zysk, Gromala, 2013, p.19; Gstohl, 2013, p.2) and informative nature (Moussis, 2005, p.189) focus on one paradox: such significant area of cooperation of the EU with other states as trade is regulated but rather laconically by the primary legal acts. They stress that the common commercial policy is not sufficiently integral and efficient. That causes a number of problems, starting with some redundancy of specific provisions in the national and Union's legal acts (which leads to a smaller degree of transparency) and finishing with uncertainties in the case of conflicts between any of the EU states and third countries.

#### **Peculiarities of EU – Russia relations**

The shortcomings of the EU common commercial policy emerge in the course of building relations with ‘mighty’

<sup>1</sup> Consolidate Version of the Treaty on the Functioning of the European Union, 26.10.2012

partners (USA, China and Russia) who exhibit a sufficiently strong negotiating power and are able to impose their own interests, most often based on political, rather than economic motives. The EU commercial relations with Russia are an evident proof of that statement.

Starting with the early 1990s, bilateral cooperation is regarded as one of the most important goals of foreign policy both of the EU and Russia. Nevertheless, that goal is not expressed precisely, and mutual cooperation priorities are not sufficiently highlighted, either. Therefore, some duality in Brussels' position is felt: on the one hand, the changes in Russia are supported and closer cooperation opportunities are sought, on the other hand, unwillingness to grant Russia a major role in European integration processes is obvious (Willa, 2010, p.27). That is motivated by the difficulties in foreseeing Russian politics, insufficient speed and scope of democratic transformations, by Russia's intentions to retain the former SSSR republics under its power and its negative attitude to the EU enlargement towards the East.

Bilateral relations are also aggravated by the fact that Russia in its own way denies the existence of the EU and, as much as opportunities permit, maintains close relations only with some Member States, mainly, with the old ones. Russia is aware of the fact that the EU operational mechanism hinders implementation of its major national interests, such as access to the European markets and to financial or technological aid (Legucka, 2007, p.145). Therefore, it tries to exploit the need of the older EU countries to ensure permanent supply of natural resources and opportunities to sell high-tech products, including military ones. Russia has chosen the strategy of closer cooperation with separate countries, rather than with the whole organization.

The EU so far has not been able to resist Russia's position. Currently as many as 18 Member States of 27 have signed bilateral 'strategic' agreements with Russia. The situation like this is most often the cause of differences between the actions of individual states and the EU institutions (Judah, Kobzova, Popesku, 2011, p.53-58), which shows inefficiency of the EU policy in regard of Russia. Moreover, Russia, by means of bilateral contacts, is able to influence Brussels' decisions. In that respect the European Union still remains a group of sovereign states, which, the major ones in particular, in their relations with Russia employ their national policies focused on cooperation and compromise (Kanet, 2009, p. 14-15; Larive, 2008, p.3).

The attempts to change the present situation fail to produce desirable results. Due to a limited scope of the paper we will present only one example of the latest EU initiatives, i.e. the political agreement 'Partnership for Modernization' of 2011 (Barroso, 2011). That agreement was meant to promote the free market-based reforms in bilateral relations in the areas of investment, innovations, power engineering, harmonization of technical standards and norms, protection of intellectual property, transport, fight against corruption, civil dialogue, etc. Despite good intentions the initiative failed to change the character of EU-Russia cooperation. It is common knowledge that the decisive factor determining that situation is the structure of Russian economy based on oil and gas export. Currently as much as three quarters of Russia's GDP is generated in that sector and that accounts for three quarters of the whole export value. Naturally, the country's elite seeks to exploit the significance of huge natural resources for both

domestic and foreign policy and is not interested in either the success of any initiative or even in closer relations between Russia and the EU (Cwiek-Karpowicz, 2011).

In the context of the present trade relations between Lithuania and Russia, the Russian attitude to EU expansion eastwards is very important. That attitude developed until the year 2004 is the factor giving shape to the relations with the new EU Member States. At the beginning the EU enlargement perspective was accepted rather favorably as an alternative to the NATO expansion. There were expectations of the improvement of mutual relations including commercial relations. But the fear that the EU eastward development may bring about new division of Europe, grew with time. The problems of territorial security, economy and trade exchange were identified as the main ones (Heinz, 2007, p.5). Russia's export to Central and East European countries, which were to become members of the EU, accounted for a significant part of total export and grew from 11.8% in the mid-1990s to 17.4 in 2000 (Zysk, Gromala, 2013, p.121). The greatest fear was that after the accession of Central and East European countries to the European Union, the conditions of supplying energy commodities might change, other restrictions on export might be introduced and the transit costs might grow. The outcome of these developments could have caused the fall in export volume and diversification, which inevitably might have resulted in a harmful effect on Russian economy.

Russia identified the fears in a number of documents where it expressed a negative attitude to the EU enlargement. The first of the documents was the list of 15 problematic areas (in Russia's opinion) submitted to the European Commission on 25 August 1999, including those related to trade: duty rates, transit, commercial preferences and application of norms and certificates. In reply the European Commission stressed that the aim of the EU expansion to the East does not mean Russia's commercial or economic isolation, but, rather, a step towards improvement of mutual relations. The Commission highlighted the unification of the trade rules with ten new Member States, elimination of quantitative restrictions on goods and reduction of duty rates for manufactured goods from Russia.

The second document of that kind was on Russia's attitude to economic and trade consequences of the EU enlargement. It stressed potential difficulties caused by the obligations of both partners to apply common norms and standards for the products as well as by transitional periods. The consensus between Russia and the new Member States on the effects of the changed conditions of trade was not reached. The EU experts predicted that due to the reduction of duty rates from 9% to 4% Russia was going to 'earn' up to 300 million Euros annually. In Russia's opinion, however, its annual loss will be 150 million Euros (Zysk, Gromala, 2013, p. 122). On that account Russia threatened that in case its opinion was neglected, it would oppose the application of the provisions of Partnership and Cooperation Agreement (PCA)<sup>2</sup> signed on 22 January 2004 to the new EU Member States.

<sup>2</sup> PCA is a wide – scope legal document consisting of a preamble, 112 articles, ten supplements, two protocols, and several unilateral and bilateral declarations. That agreement was drawn up for the period of ten years, and after the expiry of the period it shall be automatically extended for a year on condition that no party opposes it. Due to disagreements on energy and Polish meat import restrictions the extension of the agreement was terminated and since that time the provisions of the original version of the agreement have been in effect.

**Table 2. EU27 international trade in goods with Russia (billion euro)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Russia</b>													
<b>Exports</b>	22.7	31.6	34.4	37.2	46.0	56.6	72.3	89.1	104.8	65.6	86.1	108.4	123.3
<b>Imports</b>	63.8	65.9	64.5	70.7	84.0	112.6	141.0	145.0	178.3	118.0	160.7	199.9	213.2
<b>Balance</b>	-41.0	-34.3	-30.1	-33.5	-37.9	-56.0	-68.7	-55.9	-73.5	-52.4	-74.6	-91.6	-90.0
<b>Total extra-EU27</b>													
<b>Exports</b>	849.7	884.7	891.9	869.2	953.0	1057.6	1161.9	1242.9	1317.5	1099.2	1356.6	1559.3	1686.8
<b>Imports</b>	992.7	979.1	937.0	935.2	1027.5	1183.2	1363.9	1445.0	1582.9	1233.1	1530.5	1724.2	1791.7
<b>Balance</b>	-143.0	-94.4	-45.1	-66.0	-74.6	-125.6	-202.0	-202.1	-265.4	-133.9	-173.9	-164.9	-105.0
<b>Russia/Total</b>													
<b>Exports</b>	2.7%	3.6%	3.9%	4.3%	4.8%	5.4%	6.2%	7.2%	8.0%	6.0%	6.3%	6.9%	7.3%
<b>Imports</b>	6.4%	6.7%	6.9%	7.6%	8.2%	9.5%	10.3%	10.0%	11.3%	9.6%	10.5%	11.6%	11.9%

Source: Record levels...2013.

**Table 3. International trade in services between EU and Russia**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Import</b>	4.63	4.88	4.37	5.76	7.98	9.77	10.71	11.67	14.04	11.36	14.09	13.64
<b>Export</b>	3.77	5.44	4.9	7.76	9.23	12.4	14.84	18.75	21.63	18.68	23.2	25.4
<b>Saldo</b>	-0.86	0.56	0.53	2	1.25	2.63	4.13	7.08	7.59	7.32	9.11	11.76

Source: EUROSTAT, (2013-12-07) [www.epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search\\_database](http://www.epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database)

**Table 4. U and USA investments in Russia**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>EU 27</b>					20.643	32.89	50.541	72.351	89.101	96.484	119.99	124.203
<b>EU 25</b>		10.693	10.22	14.786	20.637	32.88	50.442	72.246	89.085	96.466	119.97	124.002
<b>EU 15</b>	7.32	10.562	10.07	14.597	20.175	32.01	49.298	70.527	82.691	79.345	101.43	114.362
<b>USA</b>	1.233	1.002	1.082	1.988	2.834	7.258	8.634	10.209	14.211	13.845	7.394	7.868

Source: EUROSTAT, (2013-12-07) [www.appso.eurostat.ec.europa.eu/nui/submitViewTableAction.do](http://www.appso.eurostat.ec.europa.eu/nui/submitViewTableAction.do)

Until the moment of accession of ten Central and East European countries to the EU, Russia's negative position on the effect of EU enlargement got softer. Despite that, on 22 January 2004, Russia submitted the list of debatable problems to Brussels (the so-called 'fourteen postulates'), the solution of which Russia associated with its approval of the enlargement process. The EU Council demolished the list and demanded to automatically extend the effect of PCA provisions on the ten new Member States. Otherwise, the EU threatened to apply economic sanctions. At last on 27 April 2004 the protocol on the extension of the effect of PCA as well as common statement on EU enlargement and its relations with Russian Federation was signed in Luxemburg. As a natural continuation of that process, bilateral agreement on mutual accessibility of goods and services was signed in May 2004.

It is only natural that the agreements effected in the atmosphere of mutual distrust, expostulations and even threats cannot be constructive in terms of the expected results. Presently economic relations between Europe and Russia are neither simple nor harmonious. Despite that, both parties need one another. Russia (after the USA and China) is the third largest EU trade partner complying with the strategic partnership criteria (Renard, 2010, p.4). Compared to the other two major partners, cooperation between Russia and EU has several specific features. Firstly, bilateral meetings

of Russia and EU take place twice a year, and, secondly, Russia is the only strategic partner with the common border with the EU. These circumstances undoubtedly contribute to the maintenance of a fragile balance of bilateral relations (Barysch, Coker, Jesien, 2011, p.48).

Mutual economic dependence of EU and Russia is best illustrated by statistic figures of goods, services and capital exchange. Their dynamics is represented in Tables 2, 3 and 4.

**Table 5. EU – Russia mutual trade structure in 2012 according to SITC goods classification**

Section	Label	Imports, %	Exports, %
<b>S0</b>	Food and live animals	0.6	6.7
<b>S1</b>	Beverages and tobacco	0.0	1.3
<b>S2</b>	Crude materials, inedible	1.9	1.4
<b>S3</b>	Mineral fuels and related materials	76.3	1.1
<b>S4</b>	Animal and vegetable, oil, fats	0.2	0.4
<b>S5</b>	Chemicals and related materials	3.0	15.8
<b>S6</b>	Manufactured goods	6.4	10.3
<b>S7</b>	Machinery and transport goods	0.9	49.6
<b>S8</b>	Miscellaneous manufactured art.	0.2	11.9
<b>S9</b>	Commodities and transactions	2.8	0.8

Source: worked out by the author according to Commission of the ..., 2013.

Maintenance of stable political and economic relations with Russia is the basis of European policy. At the same time it is a guarantor of stability in the region (Commission of the ...). It is to be noted that the nature of these relations depended on and is going to depend on two very pragmatic conditions clearly seen in the presented statistics:

1. Europe is highly dependent on energy resources as well as on the import of mineral resources from Russia. Russia benefits from that situation, because it can make use of that condition in building bilateral relations. In addition, it is a permanent source of huge income: currently Russia's export to EU countries accounts for one third of extracted oil and one fourth of gas, which results in 163 billion Euros of revenue. That accounts for 75% of all import from EU.
2. EU is the main capital supplier to Russia, that being a counterbalance to Russia's 'energy arguments'. In addition, the EU manufacturers almost fully meet the demand of the Russian market in such group of goods, as machines and transport facilities, chemicals, food products, etc. The value of manufactured goods from EU to Russia in 2012 accounted for 90 billion Euros, and that was nearly 85% of all export to that country.

The asymmetric balance of EU-Russian relations is evidently advantageous to both parties; therefore, positive transformations in bilateral relations can hardly be expected, at least in the near future. Commercial relations between Lithuania as well as other countries of former SSSR and Russia are further going to remain in so-called 'grey area', i.e. they are not going to be substantially protected from possible Russia's one-sided actions.

### Insights into the trade relations between Lithuania and Russia

The facts of the previous parts of the paper lead to a certain context within which Lithuanian-Russian trade relations have been developing. The essential features of that context are the following:

1. Lithuania, as a member of the EU, is to follow the provisions of the common commercial policy. That policy, however, oriented around the defense of the interests of the EU, as of the integration group (in a broader sense), in its relations with third parties, proves inefficient in case of violation of interests of one or several individual countries.
2. Russia tends to openly employ Machiavellian principle of building relations with EU countries, i.e. divide and conquer. By exploiting Europe's strong dependence on Russian energy resources, Russia pursues different trade policy (in terms of the instruments applied) with old European countries and the new members.

That context forms special features of Lithuanian – Russian cooperation, i.e., low intensity of trade exchange, fragility of cooperation and uncertainty about further change in these areas.

**Low intensity of trade exchange.** Lithuanian – Russian trade relations can be characterized by a great asymmetry. In the year 2012 Russia was the first on the list of the Lithuanian export and import markets. Lithuania, however, was the 64<sup>th</sup> among the Russian goods importers (q.v. <http://www.indexmundi.com/g/r.aspx?c=rs&v=85>). That is only natural

taking into consideration the difference in the size of economy of the two countries. Also, it is common knowledge that the intensity of trade turnover is insufficient, especially, taking into account the geographical situation of both countries and the role that in Lithuanian strategic plans was and still is ascribed to Russia (Adamkus, 2002). The fact that in terms of export from that country, Lithuania is left behind by such distant countries as New Zealand (61<sup>st</sup>), Peru (58<sup>th</sup>), Puerto Rico (54<sup>th</sup>) or Qatar (36<sup>th</sup> place), seems rather strange.

It can be stated that Lithuanian – Russian commercial relations have been focused on meeting the most imperative needs. The cooperation potential is far bigger, however, used insufficiently. In that respect the relations with Russia's other neighboring countries are much better. Table 6 represents comparison of three countries in terms of Lithuania's export 'contribution' to the GDP of those countries. It is evident that under such conditions Lithuania's export to Belarus and Ukraine is relatively bigger than that to Russia.

**Table 6. The ratio of Lithuanian export and GDP of Russia, Ukraine and Belarus (in 2012), %**

	Russia	Ukraine	Belarus
Export from Lithuania / GDP	0.29	1.95	0.86

Source: worked out by the author according to EUROSTAT data.

### Vulnerability of Lithuanian – Russian cooperation.

The facts and common statistical data of trade exhibit not only the asymmetry in economic relations, but also the need for such relations. In terms of both import from and export to Russia, that country is Lithuania's main trading partner, which is not true to Lithuania's importance to Russia. In that context the problem of vulnerability of cooperation between both countries is very important. Vulnerability can be expressed by the comparative weight of export and import of different product groups in the total trade volume<sup>3</sup>:

- Import of energy resources (oil, gas, electricity, petrol and diesel fuel) from Russia accounts for nearly 85% of all Lithuanian import. Out of these, oil and gas are almost entirely imported from Russia. Russia's export of these resources to Lithuania, however, accounts for only 0.05% of the total Russian export;
- In 2013, one-third of Lithuanian export of milk and milk products went to Russia (cf., in 2004 only 18.9% of export of these products were channeled to Russia). In the Russian market, however, (mostly in big cities) it accounted for only 1% of all products turnover;
- Russia is an important market for other Lithuanian goods: rail or tram locomotives and rolling stock (72.9% of export of these goods), rubber and its products (31%), carpets (30%), soap and washing agents (25%), non-alcoholic drinks (23%), meat and its products (22%). Even though the export weight of these goods in the Russian market is much lower than that of milk and milk products, their inclusion into the 'black list' may cause significant economic and social problems.

The data presented lead to the assumption that any

<sup>3</sup> Data of Statistics Department of Lithuania and EUROSTAT had been used to compare.

interference in trade relations turns painful to Lithuania, that being of little significance to Russia. Besides, any trade restrictions affect one another area of economic activity, i.e. transportation, automobiles in particular. The situation is aggravated by the fact that re-export to Russia accounts for as much as 77% of all export to Russia. Russia can at any time find other mediators or start direct import of goods.

It is to be noted that vulnerability is characteristic not only of Lithuanian-Russian relations, but also of other post-soviet countries with Russia. Table 7 identifies the main 'economic wars' between Russia and its nearest neighbors. The fact that most conflicts are related to food products, is explained as violation of sanitary or epidemiologic rules, which takes much time and effort to correct or deny.

**Table 7. Trade conflicts between Russia and Middle and East European countries**

Country	Year	Conflict content
Estonia	May 2007	Boycott of Estonian goods
Latvia	October 2006	Boycott of Latvian sprat (losses of approx. 10 million USD)
Lithuania	2009	Embargo of Lithuanian milk products
	September 2013	Enhanced checks of Lithuanian carriers (losses approx. 2 million Litas per day)
	October 2013	Embargo of Lithuanian milk products (conflict still continues)
Poland	November 2005	Embargo of Polish meat (losses approx. 800 million Euro)
Ukraine	February 2012	Prohibition to import Ukrainian cheese
	September 2012	Prohibition to import Ukrainian milk products
	August 2013	Prohibition to import most Ukrainian food products
Moldavia	March 2006	Embargo of Moldavian vine (losses from 60 to 100 million USD)
	September 2013	Renewal of Moldavian vine embargo

Source: worked out by the author.

**Uncertainty of Lithuanian – Russian commercial perspectives.** The current Lithuanian foreign policy regarding Russia (or, more exactly, the absence of such policy) eliminates hopes that the nature of economic relations may change due to some mutual actions. Most probably, the relations will further remain as the fluxion of conditions referred to at the beginning of the paper. The validity of that assumption is illustrated by the dialogue between the EU and Russia on the so-called PCA-2, i.e. the updated version of the Partnership and Cooperation Agreement. The first version of the Agreement (signed in 1994 and effective in 1997) has been the document regulating economic relations of the EU and Russian Federation for 17 years. The first motif for that agreement was consolidation of bilateral relations between EU and Russia. The document provided for intensifying political cooperation aimed at the desired unanimous position on international issues. The document reflected optimism with regard to Russia's future. There were hopes that Russia would follow the example of other Central and East European countries and take the path of liberalization of economy, politics and society as well as of absolute civil freedom. As mentioned in the second part of this paper, presently bilateral relations are temporarily regulated

by PCA-1 based on mutual agreement. A new version of that agreement is being negotiated.

The dialogue on PCA-2 was launched at the EU and Russian Federation summit meeting in Chanty Mansijsk in June 2008 (Joint Statement ..., 2008). The first round of the negotiations took place in July the same year. Even though the current round of the EU-Russia economic cooperation satisfies both sides, the problems arise systemically, which seriously aggravates the negotiation process. That is not at risk of termination, but still it hinders acceleration of the process (Szkop, 2012, p.52). Both parties have different visions of the new agreement. Russia expects to gain more influential reputation in relations with the European partners. The agreement is supposed to reinforce strategic partnership and, simultaneously, parity in mutual relations. The very document, in Russia's opinion, should be of general nature without providing any specific obligations. The EU, however, in the negotiations on PCA-2 seeks to guarantee security of its interests by specific agreements on trade, investments and energy. In Russia's estimation, that could impose excessive obligations, which can lead to stricter regulations of the present relations.

In addition, Russia substantiates its approach to PCA-2 by participation in the World Trade Organization (WTO). The country is not interested in signing the new agreement, because it regards its obligations in the framework of the WTO as the main priority. The terms of involvement in that organization are supposed to be a solid guarantee for the EU to ensure stability and predictability of trade relations. Presently, it is evident that Russia's accession to the WTO was not the impetus to stimulate addressing the problems, as, for example, those of the risk of one-sided trade restrictions.

## Conclusions

1. The EU common commercial policy is characterized by the feature of duality. Its provisions are directed against protectionism; however, they do not give priority to absolutely free trade. In spite of the clearly defined area of the EU free trade policy, i.e. trade relations with non-members of the EU, the main principles of trade were formed as the consequence of integration processes developed and still being developed inside the European Union; therefore, the origin of that policy lies not only in the statements of the EU primary and secondary legal acts, but also (likely, in the first place) in the very conception of economic integration. It is very likely that the integration group is well aware of the provisions of common commercial policy, but there is a lot of skepticism and criticism outside. The lack of unity and inadequate efficiency of that policy are exhibited in the relations with the third parties. That causes a lot of problems starting with dubbing of some provisions in the national and Community legal acts (which leads to the lack of transparency) and finishing with uncertainties due to possible conflicts between EU Member States and the third parties.
2. The current trade relations between EU and Russian Federation theoretically substantiated by common trade policy provisions, are practically formed by a number of conditions related to EU integration processes:

- Russia's negative attitude to the involvement of Central and Eastern European countries in the integration processes;
  - Russia's denial of the existence of EU and the strategy of closer bilateral cooperation with individual EU Member states rather than with the whole organization;
  - Inability of the EU to resist Russia's behavior and duality of Brussels' position, i.e. willingness to establish closer contacts and evasion from granting Russia a bigger role in the European integration processes.
- On the other hand, economic results of mutual relations show that both sides need each other. Mutual political disability to normalize trade relations and economic necessity to maintain them determine rather fragile, but acceptable to both sides equilibrium of relations; therefore, improvement of relations between EU and Russia is not to be expected at the moment.
3. The context of trade relations between EU and Russia suggests that trade relations between Lithuania, as well as between other former Soviet states, and Russia will remain in a so-called 'grey zone', i.e. they are not going to be protected from possible Russia's unilateral actions. The present Lithuanian policy (or, more exactly, its absence) regarding Russia does not show any signs of improvement or change in economic relations caused by some bilateral actions. Lithuanian–Russian relations are further going to be characterized by such peculiarities as low intensity and vulnerability due to considerable difficulties in renewing Partnership and Cooperation Agreement (PCA) between EU and Russia.

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