

Impact of the Trade Defence Measures on EU-Russia Foreign Trade Relations

Henrich Juhás

University of Economics in Bratislava, Faculty of Commerce,
Dolnozemska cesta 1, Bratislava 5, 852 35
Slovak Republic
henrich.juhás@euba.sk

<https://doi.org/10.53465/EDAMBA.2022.9788022550420.198-208>

Abstract. The EU trade defence measures against products from a given country depend on the potential injury that imports of these products would cause. The groups of goods from the Russian Federation, which are mainly subject to antidumping measures, are no exception. The aim of the article is to determine the impact of the EU trade defence measures implemented against Russian products on their foreign trade relations pointing out the effectiveness of these measures. The article will also deal with the new technique of antidumping measures implementation, to which the Russian Federation is subject, and the article also concludes the perspectives of trade defence instruments in the EU-Russia foreign trade relations in connection with the current military conflict between Russia and Ukraine.

Keywords: Trade Defence Measures, European Union, Russia, Foreign Trade, Dumping

JEL classification: F13, F19

1 Introduction

Over time, Russian Federation has become a major trading partner of the EU, as evidenced by the fact that in 2021, Russia was in fifth place among all trading partners in EU exports (4.1%), while in EU imports, the country reached third place (7.5%) (Eurostat, 2022).

However, as part of imports from the Russian Federation, there are product groups which the EU has assessed as potentially dangerous for domestic producers based on investigations and suggestions. These products are subject to trade defence measures which should restrict their imports and reduce the potential risk of economic injury to European producers. The EU is currently taking trade defence measures against goods from the Russian Federation in the form of antidumping (AD) duties. These duties will be the issue of our article.

Theoretically, if the Russian company exports the product at a price lower than the price normally charged on its own domestic market, this is dumping. A specific entity located in Russia does so when it seeks to export a product on the EU market at a lower price than its selling price on the domestic market. Ultimately, therefore, the subjects with dumping behavior seek to push domestic producers or small firms out of the market by short-term price reductions, while the level of these reduced prices is below the sum of their cost of production and a reasonable profit. In such a case, the intervention of the European Commission and the Council, which will issue an opinion, is required. The EU thus seeks to protect the market from the dumping behavior of foreign companies, respectively, large global chains (European Court of Auditors, 2020; Baláz et al., 2019).

1.1 Literature Review

Foreign trade relations between the EU and the Russian Federation are the subject of long-term research by the authors of the scientific community. As part of the review of existing scientific publications, we focused on resources from the Current Contents Connect database. Authors such as Kašťáková and Baumgartner, 2017 or Krasilnikova, et al., 2019 deal with macroeconomic and trade statistical indicators that illustrate the development of trade in these two territories using one-factor indicators of foreign trade evaluation or econometric models. Drieniková, 2014 or Romanova, 2013 deal with the issue of Russia's accession to the WTO and the resulting challenges for the EU, considering the evaluation of the strategic partnership or prospects for the future. Isachenko and Medvedkova, 2019 deal with the issue of trade barriers and regulations, which, according to the authors, significantly affect bilateral relations between the Russian Federation and the EU, taking into account political issues or issues of economic sanctions. Savelyev and Khetagurova, 2016 deal with the issue of antidumping measures imposed on Russian goods in general and making recommendations that Russian exporters can defend themselves in the WTO. They also consider the cooperation of Russian entities with the investigating authority to be very important and beneficial in relation to the issue of dumped goods. Wustenberg, 2019 deals with EU antidumping measures against Russian products, analyzing EU practices. As the analysis of antidumping measures against Russian products from a practical point of view is not represented in detail in the publications Current Contents Connect, we see the space for processing this issue.

2 Methodology

The aim of the article is to determine the impact of the EU trade defence measures implemented against Russian products on their foreign trade relations pointing out also the effectiveness of these measures.

The research was divided in two stages, while the first involves the searching of information within the relevant books and journals that are indexed in the Current Contents Connect database. We have also used the information from the official

documents published by European Commission. The second stage includes the dealing with the practical statistical data obtained within the relevant databases, including Eurostat, International Trade Centre, etc.

While preparing the paper, we used the empirical methods of scientific research. We have defined the basic concepts by analysis and synthesis combined also with abstraction. The practical results are illustrated by the method of mathematical and statistical methods with the help of graphic illustrations for better understanding. The method of comparison was used when identifying the impact of trade defence measures on foreign trade relations between countries examined within the observed period of last 10 years and when evaluating the effectiveness of trade defence measures. When evaluating neuromarketing methods, we used the method of comparison. Methods of induction and deduction helped us to determine the conclusions of the research within our article. Within the process of identifying the impact of measures mentioned above, we also used the indicator of mutual trade intensity – Trade Intensity Index.

2.1 Trade intensity index

The potential for mutual trade between the countries observed can be expressed through the intensity of mutual trade, which is calculated through the Trade Intensity Index (TII). We use this index to determine whether the volumes of mutual trade between the two selected countries reach greater or lesser values than expected given their position in the world economy. The index can be expressed as the ratio of the share of exports of country i to country j to the total exports of country i and the share of exports to country j to the value of total world exports. The formula for its calculation is as follows (World Bank, 2010):

$$TII_{ij} = (x_{ij}/X_{it}) / (x_{wj}/X_{wt}); \quad (1)$$

where:

x_{ij} – value of exports of country i to country j ;

X_{it} – the value of total exports of the country i to the whole world;

x_{wj} – value of the world exports to country j ;

X_{wt} – total value of world exports.

The results of this calculation can be interpreted as follows (World Bank, 2010):

- if $TII = 1$ - this is indicated by the fact that the exporting country i exports to country j the same ratio as belongs to country j in relation to its share of world imports;
- if $TII > 1$ - in this case it is the fact that country j exports to country j in a larger proportion than to the whole world. In other words, trade flows are higher than expected given the position and importance of countries in the world economy. It is therefore an intensive trade between the countries concerned;

- if $TII < 1$ - this result indicates a low trade between the studied countries, resp. at a lower level than expected.

The value of the Trade Intensity Index is therefore dependent on several factors, including trade barriers or trade defence instruments. Based on the development of the trade intensity index, it is possible to assess the change in the trade intensity of the surveyed entities during the observed period. In our case, it is an examination of the intensity of trade between Russia and the EU (vice versa). The source of data in this analysis is the ITC Trade Map database.

3 EU antidumping policy against Russia

The European Union is currently investigating nine antidumping measures against imports from the Russian Federation. Since 2017, the European Union has been using a new dumping methodology to assess market distortions in third countries. The main objective of this methodology is to detect and correct market distortions resulting from state intervention in third countries, while the dumping calculation algorithm itself is based on the rules set out in the WTO Anti-Dumping Agreement (The Council of the EU, 2017).

Should a serious market distortion in the exporting country be found, the European Commission has the right to correct the prices, as these prices do not provide a relevant basis for comparison with the export price in a distorted market. According to this methodology, other benchmarks must be used in similar cases, which reflect undistorted production and sales costs. This correction therefore consists in determining the price of a given product either on the basis of production costs and sales prices in another country at a similar level of economic development or on the basis of appropriate undistorted costs and prices at international level (European Commission, 2017; The Council of the EU, 2017).

One of the reports of significant market distortions in third countries is also the report concerning the Russian Federation. It is the result of European research and provides facts and important evidence on several aspects of the Russian economy that may be relevant to the decision-making process in antidumping investigations. The Commission's working document on the significant economic distortions of the Russian Federation for the purposes of trade defense investigations (2020) therefore speaks of the problems which, according to the EU, have caused market distortions, from which we list selected points:

- a higher level of state intervention in the economy at the regional level, with the presence of illegal means of business activity and Russia's poor performance in the fight against corruption;
- in many sectors, state-owned enterprises are a tool for potential intervention in regulated markets (eg the banking sector);
- preferential treatment of state-owned enterprises in government procurement;

- the level of corruption in the procurement sector is well above the level of OECD economies;
- unclear temporary import substitution policy with a large set of measures to replace imports by domestic production in many sectors;
- the impact of sanctions imposed on Russia (uncertainty, reduction of investment, etc.);
- high levels of state participation and high levels of market concentration in many strategic sectors (energy, defense) and natural monopolies (electricity, gas, water, and rail);
- the absence of policies that would lead to a systematic overestimation or underestimation of the value of the soil, environmental aspects are not considered either;
- monopoly rights and state-regulated prices;
- excessive reduction of transport costs by regulated and subsidized railway tariffs creates an advantage only for selected sectors;
- still prevailing export duties on selected goods, e.g. wood industry;
- limited influence of trade unions on wage policy and working conditions, low level of real bargaining.

The goods subject to antidumping defence duties, with accordance to the new methodology come from several product groups, which are shown in the following Figure 1.

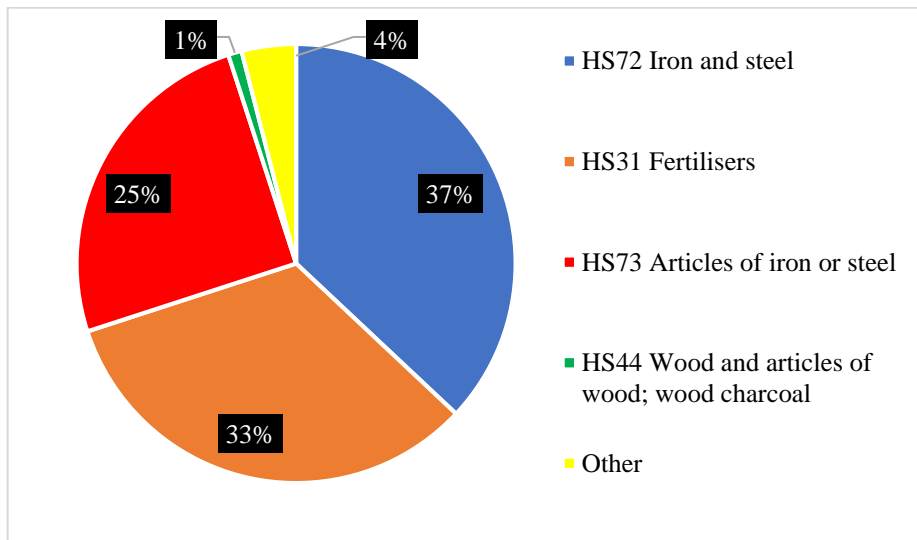


Fig. 1. Commodity structure of EU antidumping measures investigating against Russia (author's own processing according to European Commission, 2022).

Figure 1 shows us the commodity structure of EU antidumping measures that are currently being investigated against Russian products. According to the HS2 product

groups, the most represented group is HS72 – Iron and steel with the share of 37% to the total dumped goods. The second group is HS31 – Fertilisers, with the 37% share. The next with the share of 25% is the product group HS73 – Articles of iron and steel. We can illustrate the fact that this group, together with group HS72, which has similar characteristics, constitutes more than 60% of the products subject to antidumping measures in the form of duties. The product group HS44 – Wood and articles of wood; wood charcoal has the lowest share, with only 1%. The other groups of Russian products subject to antidumping duties, the amount of which was negligible compared to the groups already contained, were combined into one value called Other, which makes up a total of 4% share.

Selected products within the commodity groups in first 3 places included in the Figure 1 will be the subject of research into the effectiveness of EU antidumping defence measures investigated against Russia. We illustrate here the development of the value of products imported within the chosen HS group together with the development of AD duty in % that have been in force. We have also involved the years before the implementation of AD duty, for comparison and better understanding.

3.1 Effectiveness of EU antidumping defence measures against products from Russia within the group HS72 – Iron and steel

According to the EU official database, we have chosen the particular commodity from the HS72 group, that is subject to antidumping duties. To be more specific, the commodity observed is HS6 - 72251100 - Flat-rolled products of other alloy steel, of a width of 600 mm or more, of silicon-electrical steel of a thickness exceeding 0,16 mm.

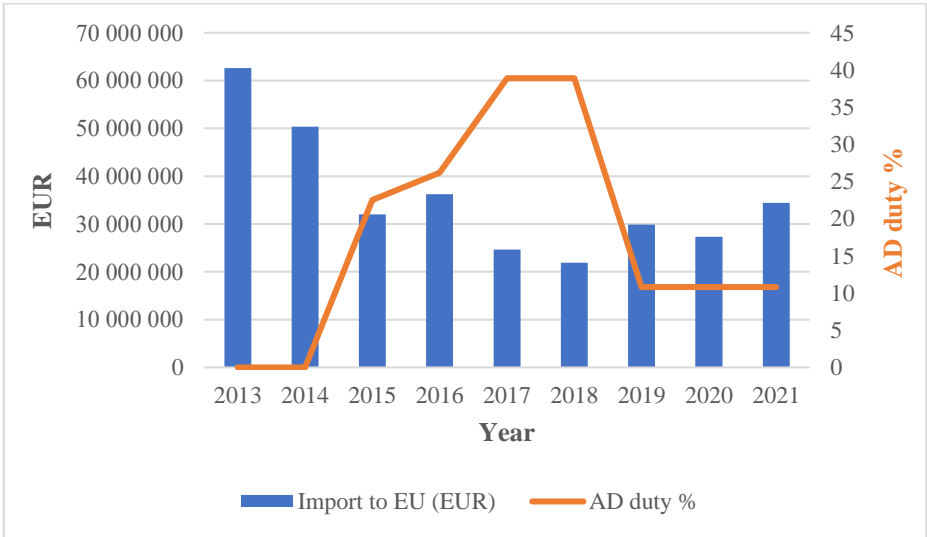


Fig. 2 Development of imports and antidumping duty on HS72251100 commodity from the Russian Federation to the EU in 2013 – 2021 (author’s own processing according to European Commission, 2022 and Eurostat, 2022).

Firstly, we analyzed products from group HS72251100. Figure 2 shows the development of the value of imported goods in EUR in individual years and the development of the antidumping duty in %. The AD duty was imposed on these products in 2015, starting at 22.5%. In this case, we observe a significant reduction in imports of goods. Subsequently, in 2016, 2017 and 2018, the value of the antidumping duty increased to 38.9% and the imports decreased. The duty dropped sharply to 10.8% in 2019 and this value remains unchanged. At the same time, during the duty reduction, the volume of imported goods increased slightly. Based on the analysis of this figure, we can conclude that the imposition of an antidumping duty on these products was effective during the period of application of the higher duty, as imports of products showed a declining trend after the duty imposition. After the reduction of duty, imports increased in 2019, then decreased again in 2020. In the last monitored year, however, we see a slight increase in imports, which evokes a slight defect in the effectiveness of AD duties. Accordingly, we can conclude that the imposition of duties has eliminated the existence of dumping prices in this product sector. This decrease may mean that the domestic market has been protected from imports of goods at prices below their selling price on EU market. However, it is necessary to focus on the management of AD duties in recent years due to the mentioned slight increase.

3.2 Effectiveness of EU antidumping defence measures against products from Russia within the group HS31 – Fertilisers

The analysis of the AD duty within the product group HS73 was implemented on the products from HS31026000 - Double salts and mixtures of calcium nitrate and ammonium nitrate.

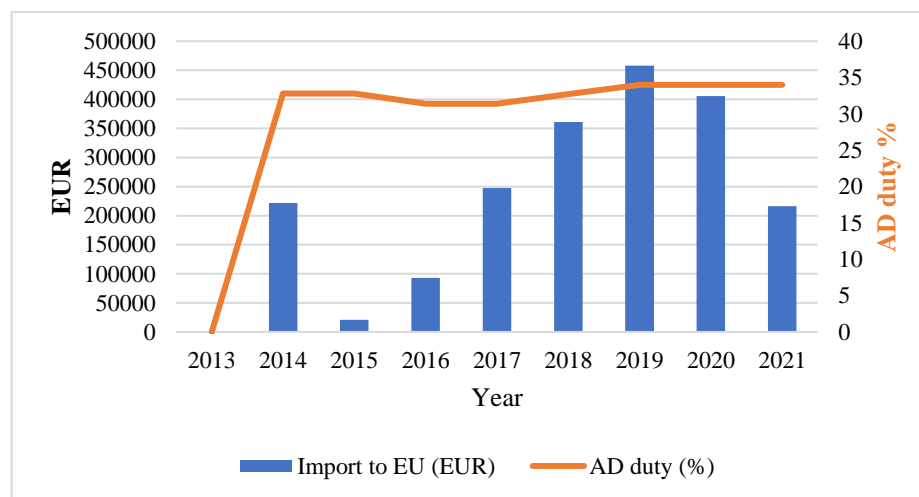


Fig. 3 Development of imports and antidumping duty on HS31026000 commodity from the Russian Federation to the EU in 2013 – 2021 (author’s own processing according to European Commission, 2022 and Eurostat, 2022).

Figure 3 shows that the AD duty was imposed on these goods in 2014, when it was 32.8%. In 2015, we recorded a significant decrease in the value of imports and even though the value of customs duties did not change, the value of imports fell. In the following year, the value of the duty decreased to 31.4%, while this value persisted in 2017. Next years, there was a slight increase in the values of imports. We recorded the highest value of imports in 2019, and at the same time a definitive duty of 34% was implemented that year. In the last 2 years, however, we can see a decline in import values. In this case, we can evaluate the effectiveness of the imposed duty positively, as we recorded a declining trend of imports after the first implementation of the duty - in 2015 and 2016 and also after re-implementation of the definitive duty - in 2020 and 2021.

3.3 Effectiveness of EU antidumping defence measures against products from Russia within the group HS73 – Articles of iron and steel

The effectiveness of AD duty within the last group, HS73 will be analyzed by the example of import of HS73079311 - Tube or pipe fittings of iron or steel - Elbows and bends.

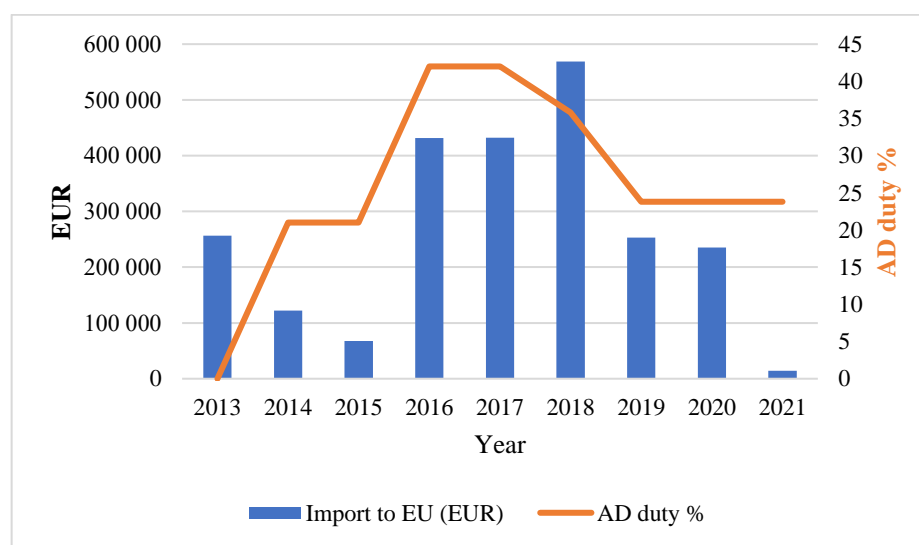


Fig. 4 Development of imports and antidumping duty on HS73079311 commodity from the Russian Federation to the EU in 2013 – 2021 (author's own processing according to European Commission, 2022 and Eurostat, 2022).

In the case of these goods, the AD duty was imposed in 2014 when it was 21%. At the same time, after the imposition of the duty, the value of imports for the products concerned decreased by about half, followed by the same decrease in 2015, while the value of the duty remained unchanged. As the value of import started to rise significantly in 2016, the new AD duty reached the value of 42% and stopped the rising trend, which stayed unchanged. In 2018, the AD duty was reduced to 35.8%, and the

import increased rapidly. However, AD duty was subsequently reduced more, to 23.8% in 2019, where we can see also the decrease in Russian imports. Compared to 2018, we have seen a significant drop in import values by about half, even the AD duty is lower which is a paradox. In 2021, the value of imports fell rapidly to the lowest value so far, based on which we can assess the antidumping duty as effective.

The next part of the article illustrates the impact of the AD duties on mutual trade intensity between Russia and the EU.

3.4 EU trade defence measures and trade intensity of the mutual trade EU-Russia

In following analysis we measured the data obtained from ITC Trade Map by using the formula (1) we have already mentioned in chapter 2. We dealt with the period starting in 2013, the same year as the previous Figures. The results are as follows.

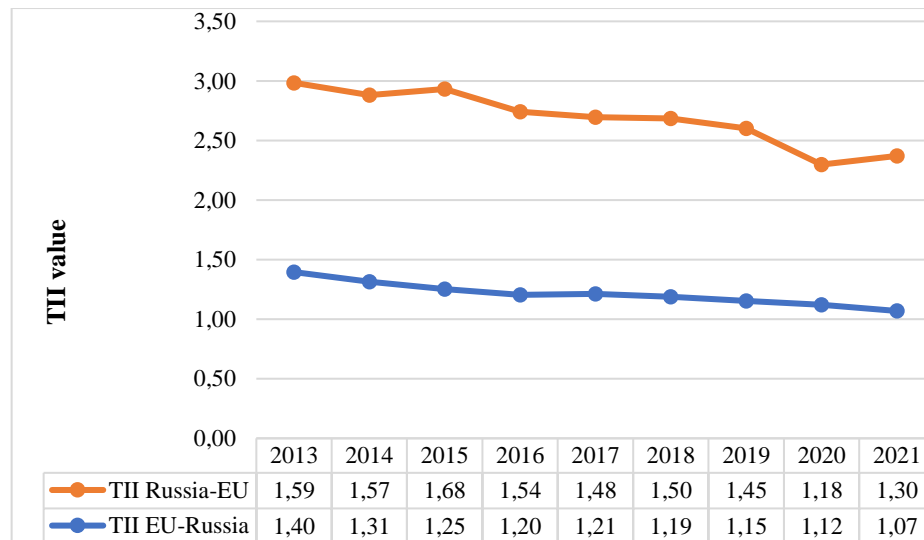


Fig. 5 Development of trade intensity between Russia and the EU (vice versa) in the years 2013 to 2021 based on the TII index (author's own processing according to ITC Trade Map, 2022).

The results in Figure 5 shows that trade flows are higher than might be expected given the importance of Russia in the world economy, so Russia exports in proportion more goods to the EU than to the rest of the world. However, even though the trade intensity was at the level more than 1, so the intensity was high, within the observed decade, after imposing the AD duty, the index has decreasing trend, even in 2021 the trend started to increase. All things considered, the AD duties could be one of the factors that negatively influenced the trade intensity between Russia and the EU. For the illustration, we have also involved the trade intensity from the EU point of view. The results are the same, higher than 1, but the index trend have been also decreasing.

4 Conclusion

The article dealt with the EU trade defence measures and their impact on foreign trade relations between the EU and Russian Federation. This country must face the antidumping duty defence from the EU, followed by new updated methodology taking into account the trade distortions.

Within the research, we have found that the product groups facing the AD duties the most are HS72, HS31 and HS73. Particular commodities from these HS groups were subjects to examining the effectiveness of AD duties imposed by the EU. Even the small abnormalities or paradoxes, the effectiveness of EU AD duties imposed on particular products from mentioned groups was proved in the whole. However, it is important to manage the trade defence policy more precious, as there was small increase in last period observed within HS72 commodity.

The analysis of mutual trade intensity also proved the fact, that implementation of AD duties could be the reason for decreasing trend of trade intensity index between Russia and the EU, even the trade is still intensive, because the values were higher than 1.

The development of trade defence measures by the EU against Russia has been influenced since 2017 by a new methodology, which includes market distortions. However, the Russian Federation is currently facing sanctions around the world due to military aggression in Ukraine. This fact may also significantly affect the mentioned methodology of EU trade defense instruments in the near future, as these factories are also considered to be distortions in the report mentioned in our article. At present, we can almost certainly expect changes in this policy on the part of the EU in connection with the events of recent days, so the issue needs to be further monitored and analyzed in detail.

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