

Business as an actor of interstate relations: the case of the EU and Russia

Companies have always been an integral part of international relations, playing quite a significant role in political developments during the last several decades. In fact it is companies who create the economic base for interstate relations, and their interests can not be ignored while taking the political decisions. Big transnational companies' interests accelerate the liberalization of the international trade and investment conditions. In this study we will try to find out if companies have a say in political dialogue taking the example of Russia and the EU during the most complicated period of their modern relations – “sanctions war” (2014-present).

One can use the term “corporate integration” meaning the corporate level of economic ties between two or more countries, which does not depend on formal integration between the states. In Russia several scientists use this term in their research. A. Kuznetsov (IMEMO) deals with the corporate integration within the EU¹, A. Libman and B. Kheifets analyze the corporate integration in CIS-countries², and E. Vinokurov (A. Libman is his co-author) makes research about corporate integration in Eurasia³.

The question about how do business ties correspond with the formal relations between Russia and the EU has been purely theoretical until the crisis in Ukraine burst out in the end of 2013. There were signs of formal integration process between Russia and the EU before the Ukrainian crisis, but this formal integration had moved forward very slowly. Since 2014 when the war of sanctions

¹ Кузнецов А.В. Трансграничная корпоративная интеграция в Балтийском регионе / А.В. Кузнецов // Балтийский регион. – 2012. – № 1. – С. 17–26.

² Хейфец Б.А., Либман А.М. Корпоративная интеграция: альтернатива для постсоветского пространства. – М.: ЛКИ, 2008.

³ Винокуров Е.Ю., Либман А.М. Евразийская континентальная интеграция. СПб.: Центр интеграционных исследований. 2012. С. 41-58.

began⁴, all formal contacts have been paralyzed. Since then informal, or corporate integration has become the basis of Russia-EU economic relations.

Statistics say that the crisis immediately reflected in the economic cooperation. The total trade decreased in 2016 by 50% compared to the 2013 level. Mutual foreign direct investments reacted asymmetrically. Russian FDI in the EU decreased by 42% in 2014, but started to grow fast in 2015 (more than 100% growth). This considerable growth was caused by dramatic sharpening of economic and political situation in Russia. EU investment in Russia started to fall from the 2nd half of 2014 and there were some signs of recovery by the 3^d quarter of 2016 only⁵.

Corporate integration was also affected by the war of sanctions. The effect here is not that clear-cut as on the economic statistics in general. Most companies preferred not to interfere in political issues but chose different ways of entering the other-country's market. So the effects of a new political situation on corporate ties are diverse. Some of them triggered closer cooperation and integration between companies.

There are several examples of Russian investment projects in the EU, started or finished in 2014. Many of them were initiated long before the sanctions war, but most of them successfully finished. The most significant investment was made by the state-owned Rosneft who closed two deals in 2014 which cost together more than 800 mln euro. No sanctions black lists prevented the company and its European partners from the deals.

Many European companies in Russia were forced to follow the logic of sanctions and restricted their activity in spite of considerable business interests in our country. The examples here are Total and Eni, both conducting the long-term expensive oil and gas extraction projects, in case of Eni – on the Arctic shelf of

⁴ Sanctions war includes a number of bans imposed by the EU (for several Russian officials to enter the EU, for the EU companies to cooperate with several Russian companies in a number of sectors: oil and gas, financial, defence industry) and the ban on the agricultural imports from the EU imposed by Russia in August 2014.

⁵ See the Russian Central Bank official statistics on Foreign Direct Investment. URL: <https://www.cbr.ru/statistics/?PrtId=svs>

Russia. At the same time there were plenty of examples of the EU companies extending their presence in Russia during this complicated period. Among them are Bayer, BASF (Germany), IKEA (Sweden), Unilever (Netherlands/Great Britain) and many others. All in all it became clear that the European companies were and still are the main contradictors to the sanctions.

Sanctions war imposed restrictions not only on the trade and investment projects, but also on some other sorts of corporate integration, among which are strategic alliances and partnerships, joint research, technologies transfer and many others. It forced the companies to search for some new cooperation forms (enlisted below) in order not to lose the synergy effect they achieved during the years of cooperation.

There are a number of clear trends in corporate ties between Russia and the EU which became clear during the sanctions war.

1) Russian embargo on agricultural imports from the EU forces a number of companies from the EU who previously dealt with such imports to ***localize the manufacturing in Russia***. Those who have some productive capacities in Russia already increase the production volume multiple. A good example here is the Finnish company Valio which extended in 2014 the assortment of its dairy products made in Russia and involved new capacities to produce even more. The same sort of rearrangements took place by the German Ehrmann.

2) Another effect has its roots in the difficult economic situation in Russia caused not only by sanctions war. One of its effects was a dramatic devaluation of Russian national currency, which made it far more profitable to produce in Russia. A number of EU companies have already taken this chance and ***set out plants in Russia for export-oriented production***. A good example is the Italian company Candy producing household appliances on its plant in Kirov and exporting it to the EU, Japan, Australia and New Zealand. BSH Hausgerate GmbH has increased its exports from Russian plants almost twice since 2014. Among other examples there are the L'Oreal, Oriflame, Unilever and others.

3) Some companies find a way out from the sanctions gridlock by *arranging joint projects in the third countries*. The examples here are mostly from the energy sector: BP (Great Britain) and Letterone (Russia) were planning to invest together 12 bln dollars in Egypt. Lukoil (Russia) and Bowleven (Great Britain) have shares in oil extraction project in Cameroon. There are also examples of cooperation in services: Russian company Kronospan conducts a number of services on EU plants in CIS countries using its benefit of knowing the local standards and regulations.

4) Some European companies have announced about their wish to *use Chinese investment funds for making outlays in Russia*. French Total was the first to announce the plans to do so and to invest 15 bln dollars in oil extraction projects in Russia.

5) *Corporate migration* is an important consequence of sanctions war and worsening of economic situation in Russia. In order to maintain efficiency some companies move from one country to another, taking all the stuff and stop their activities in their former jurisdiction. This trend is the most visible in IT sphere: such companies like «GameInsight», «Toonbox» and «Luxoft» (they make computer games, animation and software) have moved to East European countries in order to enjoy their more friendly business environment and stable political situation. Another motivation was cheaper qualified labour force, but after devaluation of ruble it is not true any more. Examples of movement in opposite direction are Gasprom and Gasprom Neft which moved their trader centers to Saint-Petersburg from London and Vienna. This step means considerable decrease in corporate integration — at least of these particular companies and their counterparts in the EU. Foreign trader centers often play a role of a connective link not just between the two companies but between the business environments of relevant countries.

To sum it up, the empirical data shows that in case of Russia-EU relations the politically motivated decisions and business behavior have a much stronger correlation than it seemed to the most experts before the crisis and on its early stages. The structure and directions of the basic business ties between Russia and the EU are changing. The companies, even the largest and the most powerful ones, prefer to adjust to the current situation by changing their strategies and in some cases suffer a considerable loss. Russian companies are doing their best to move some of their assets, or the whole companies, to the EU countries, trying to secure themselves during a turbulent period in Russian economy.

This makes the dialogue between business and the authorities extremely important, on national and transnational level. Interests and expectations of both sides should be expressed as clear as possible. The companies should be given a say when the political dialogue starts to recover. It would be helpful if one wants trusting, healthy and comprehensive relations between Russia and the EU.