

## BREXIT AND TRADE AND ECONOMIC RELATIONS<sup>1</sup> BETWEEN RUSSIA AND THE UK

A. Knobel, A. Firanchuk

*The UK's exit from the EU can affect Russia primarily through an increase in volatility in the world markets and the consequent reduction in medium-term oil prices. Impacting Russia directly through trade is less likely. First, the United Kingdom accounts for about 2% of Russia's trade turnover. Second, Russia's exports are mainly raw fuel (84% in 2015), which can be easily redirected to other markets; in addition, about half of these exports are gas trading. The structure of imports from UK is very similar to that from other EU countries. The impact on Russia through trade in services seems more likely, as the UK's share in Russia's services turnover is about 6%.*

International financial markets reacted to the results of the UK referendum not only with sharp depreciation of the pound sterling (by about 11%) and a decrease in British companies' share prices, but also with a sharp decrease in their value. The latter circumstance may have an impact on the size of Russia's export earnings and Russian budget revenues. Today, however, it is difficult to say whether the results of the referendum on the UK's exit from the EU will have a long-term impact or only lead to a short-term deviation of the global oil prices' trajectory from its trend.

In the medium term, a negative impact on Russian economy may emerge due to the likely effect from GDP changes in the United Kingdom and other EU members happening because of the recovery of trade barriers between the UK and continental Europe. At the same time, given the high degree of integration among the economies of the United Kingdom and other members of the European Union, it can be assumed that the parties will strive to maintain mutual benefits in trade and not to hurry with the introduction of significant trade barriers. At least, one should not expect the abolishment of the free trade regime between the EU and the United Kingdom in the foreseeable future (*for details, see the text by M. Larionova, A. Sakharov, A. Shelepova in this issue of the real-time monitoring*). At the same time, however, London will get the possibility to conduct independent trade policy and introduce a variety of protective measures (anti-dumping, compensatory, special safeguard measures) in relation to Russian production (in the risk zone, there will be chemical products, natural rubber, metals and metal products).

If we talk about mutual trade between Russia and the United Kingdom, it should be noted that the share of the UK in the Russian foreign trade in goods in 2015 amounted to 2.1%, while Russian exports to the UK are mainly commodities, particularly mineral fuel (83.9% of exports in 2015). According to the Federal Customs Service, a significant proportion of these exports accounts for natural gas (39.5% of total exports in 2015), which is not export in the conventional sense (it is not the gas produced in Russia), but rather trading (according to BP<sup>2</sup>, Russia does not supply pipeline gas to the United Kingdom).

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<sup>2</sup> <https://www.bp.com/content/dam/bp/pdf/energy-economics/statistical-review-2015/bp-statistical-review-of-world-energy-2015-full-report.pdf>

### Dynamics and structure of trade turnover between Russia and the United Kingdom

Dynamics and structure of trade turnover between Russia and the UK is not very different from that of Russia's trade with the European Union (Table 1). The United Kingdom's share in the total trade turnover ranges from 2.1 to 2.9% in recent years (2013–2016). One can only note the decrease in the UK share in Russian imports of goods from the EU from 6.5% (in 2014) to 4.9% (in the first four months of 2016).

Table 1

#### DYNAMICS OF TRADE TURNOVER BETWEEN RUSSIA AND THE UNITED KINGDOM

	2013	2014	2015	January–April 2016
Trade turnover, billion dollars	24.56	19.28	11.19	3.17
Share in trade turnover total, %	2.9	2.5	2.1	2.4
Share in trade turnover with the EU, %	5.9	5.1	4.7	5.4
Exports, billion dollars	16.45	11.47	7.47	2.22
Share in exports total, %	3.1	2.3	2.2	2.7
Share in exports to the EU, %	5.8	4.4	4.5	5.7
Imports, billion dollars	8.12	7.81	3.72	0.96
Share in imports total, %	2.6	2.7	2.0	1.9
Share in imports from the EU, %	6.0	6.5	5.3	4.9

Source: authors' calculations based on Federal Customs Service data.

The structure of Russian exports to the United Kingdom is largely the same as the structure of its exports to the EU. Goods, except fuels (customs commodity code 27), account for 22.1% of exports to other EU countries, and only for 16.1% of exports to the UK.

Table 2

#### STRUCTURE OF RUSSIAN EXPORTS TO THE UNITED KINGDOM AND OTHER EU COUNTRIES IN TOTAL RUSSIAN EXPORTS TO THE EU IN 2015

Customs Commodity Code	Commodity items	Exports to the UK, million dollars	Share in exports to the UK, %	Share in exports to other EU countries, %
01–24	Foods and agricultural raw materials (except textile)	64	0.9	1.2
27	Fuel	6267	83.9	77.9
28–40	Chemical products, natural rubber	354	4.7	4.7
44–49	Wood, cellulose and paper	152	2.0	1.4
71	Precious metals and stones and products made from them	129	1.7	1.8
72–83	Metals and metal products	252	3.4	8.7
84–92	Machines, equipment, transport facilities	98	1.3	2.6
	Other items	156	2.1	1.7

Source: authors' calculations based on Federal Customs Service data.

The structure of Russian imports from the United Kingdom similarly repeats the structure of its imports from other EU countries — about half of it are machines, equipment and transport facilities.

Table 3

**STRUCTURE OF RUSSIAN IMPORTS FROM THE UNITED KINGDOM  
AND OTHER EU COUNTRIES IN 2015**

Customs Commodity Code	Commodity items	Imports from the UK, million dollars	Share in imports from the UK, %	Share in imports from other EU countries, %
01–24	Foods and agricultural raw materials (except textile)	329	8.8	8.0
27	Fuel	46	1.2	0.7
28–40	Chemical products, natural rubber	1087	29.2	27.1
44–49	Wood, cellulose and paper	81	2.2	3.2
71	Precious metals and stones and products made from them	14	0.4	0.2
72–83	Metals and metal products	148	4.0	5.9
84–92	Machines, equipment, transport facilities	1881	50.5	47.4
	Other items	136	3.7	7.4

Source: authors' calculations based on Federal Customs Service data.

#### The dynamics of trade in services

The EU share in the turnover of services in Russia is rather stable: 46% to 43% in 2013–2015. which is almost equal to the EU share in the Russian trade turnover. At the same time, the share of the United Kingdom in the Russian foreign turnover of services is much higher than that in the trade turnover – it's 5.8%, making the country one of the most important Russian partners on trade in services. It also increases the risks to our country from shocks in the British economy. especially considering the significant share of “other business services” and “insurance” in the services turnover between Russia and the UK compared to the shares of these areas in the services turnover between Russia and other EU members.

Table 4

**DYNAMICS OF TRADE IN SERVICES BETWEEN RUSSIA  
AND THE UNITED KINGDOM**

	2013	2014	2015
Services turnover, billion dollars	11.68	10.78	8.26
Share in services turnover total, %	5.9	5.8	5.9
Share in services turnover with the EU, %	13.8	12.9	13.7
Services exports, billion dollars	4.87	4.53	3.16
Share in services exports total, %	7.0	6.9	6.1
Share in services exports to the EU, %	17.5	16.7	16.1
Services imports, billion dollars	6.81	6.25	5.11
Share in services imports total, %	5.3	5.2	5.8
Share in services imports from the EU, %	12.0	11.1	12.5

Source: authors' calculations based on the Russian Central Bank data.

The structure of services exports to the United Kingdom is different from that to other EU member states: the share of “transportation services” and “telecommunication and other services” is somewhat larger, while the share

of “travel” and “construction” is much smaller. The structure of services imports from the United Kingdom differs from that from other EU countries in that the share of “travel” is much smaller, and the share of “other business services” and “insurance” is significantly larger.

Table 5

**STRUCTURE OF RUSSIAN EXPORTS OF SERVICES TO THE UNITED KINGDOM AND OTHER EU COUNTRIES IN 2014**

	Exports to the UK, million dollars	Share in exports to the UK, %	Share in exports to other EU countries, %
Processing of goods belonging to other parties	5	0.1	2.6
Maintenance and repair	39	0.9	2.6
Transportation services	1493	32.8	24.1
Travel	222	4.9	19.2
Construction	57	1.3	8.1
Insurance and services of private pension funds	85	1.9	0.6
Financial services	419	9.2	2.2
Charges for the use of intellectual property	41	0.9	1.0
Telecommunication, computer and information services	595	13.1	7.3
Other business services	1554	34.2	31.3
Services to individuals and services in the field of culture and recreation	32	0.7	1.0

Source: authors' calculations based on the Russian Central Bank data.

Table 6

**STRUCTURE OF RUSSIAN IMPORTS OF SERVICES FROM THE UNITED KINGDOM AND OTHER EU COUNTRIES IN 2014**

	Imports from the UK, million dollars	Share in imports from the UK, %	Share in imports from other EU countries, %
Processing of goods belonging to other parties	0	0.0	0.0
Maintenance and repair	153	2.4	1.5
Transportation services	335	5.4	4.5
Travel	1072	17.2	44.9
Construction	159	2.5	4.8
Insurance and services of private pension funds	649	10.4	1.0
Financial services	223	3.6	1.5
Charges for the use of intellectual property	527	8.4	10.2
Telecommunication, computer and information services	657	10.5	7.0
Other business services	2308	36.9	23.3
Services to individuals and services in the field of culture and recreation	166	2.6	1.2

Source: authors' calculations based on the Russian Central Bank data.

Therefore, the possible impacts on the Russian economy would be the increase of uncertainty in the markets, short-term and possible medium-term

negative effects on oil prices, a possible change in the regulation of international trade in services in the United Kingdom, and independent use by the UK of various restrictive trade measures in relation to the Russian chemical industry, metals and metal products. Considering that London has the toughest stance on sanctions against Russia among all EU member states, one can say that the United Kingdom's exit from the EU will probably result in London imposing the same or more severe sanctions on Russia. This time unilaterally. ●