

What are the effects of the sanctions between Russia and the European Union for the industry and agriculture in the region of Twente?

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Abstract: Since 2014 the EU and Russia have put in place a set of sanctions which limit trade between each other. In this study, the authors have found no serious effects of the sanctions on the regional economy of the region Twente. Some individual businesses became bankrupt, but most interviewed businesses reported that they were able to shift their sales to other markets.

Keywords: Sanctions, Russia, Twente, economic policy

1 Introduction

This article deals with the consequences of the current economic sanctions between the EU and Russia for companies in the region Twente, in The Netherlands. The authors have investigated the regional effects on export of Dutch companies to Russia. The article starts with a brief description of the region and its economy, followed by the effects of the sanctions.

1.1 Short description of modern Twente

Twente is a region which is located in the province of Overijssel, The Netherlands. The region has a size of about 1.504 Km² and about 627.000 inhabitants. The region has grown rapidly during the industrial age because of the production of textile (Bazen & Bijleveld, 2012).

The three largest cities in the region are Enschede with 158.331 inhabitants, Hengelo with 81.074 inhabitants and Almelo 72.438 inhabitants. There are 2 major motorways across Twente, the A1 (Amsterdam to Germany) and the A35 (Zwolle to Enschede and further to Germany). Besides the highway there is a bicycle highway F35 (Nijverdal – Enschede) and there are several railroads of which the most important ones are from Enschede to Zwolle or Apeldoorn (these split at Wierden to go their own separate ways).

In terms of higher education there is the University of Twente and Saxion University of Applied Sciences, both in Enschede. Then, the Vocational Schools ROC Twente (General vocational education) and AOC (Agricultural education). Besides these there are a number of primary and middle schools.

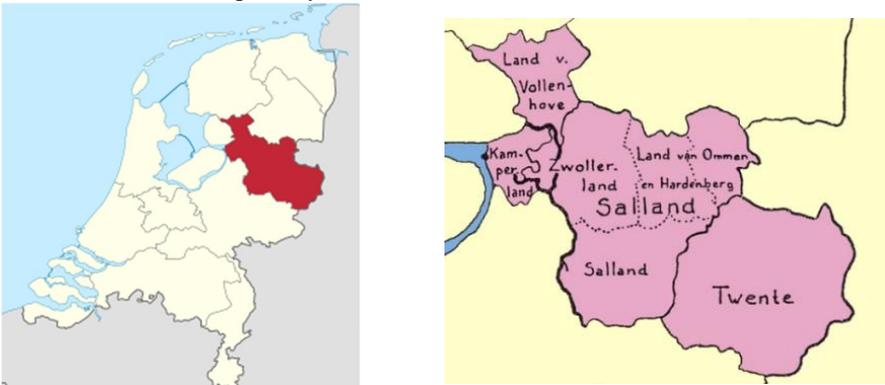


Figure 1
Location of Twente in The Netherlands

1.2 Comparison between Twente and the Netherlands Import / Export

The average trade balance of Twente is significantly more positive than that of The Netherlands. The numbers are quite volatile, but in general steadily positive, however there appears to be a slight falling tendency in 2015. The explanation for the rather strong positive trade balance in Twente is that it is an industrial region, close to the border, with many companies supplying large companies in Germany (Bazen & Bijleveld, 2012).

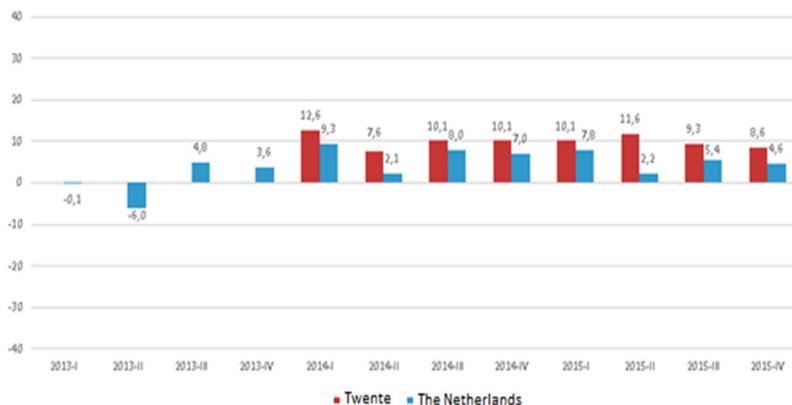


Figure 2
Trade Balance of Twente and the The Netherlands, 2013 – 2015 (Kennispunt Twente, 2016)

1.3 Development of company turnover rates

The Dutch Chamber of Commerce asks their members every quarter whether they have seen an increase, decrease or stable development of their turnover. The outcomes are then calculated in such way that the percentage of companies that report a decrease are subtracted from the percentage of companies that report an increase. The resulting figure is a sort of thermometer for growth.

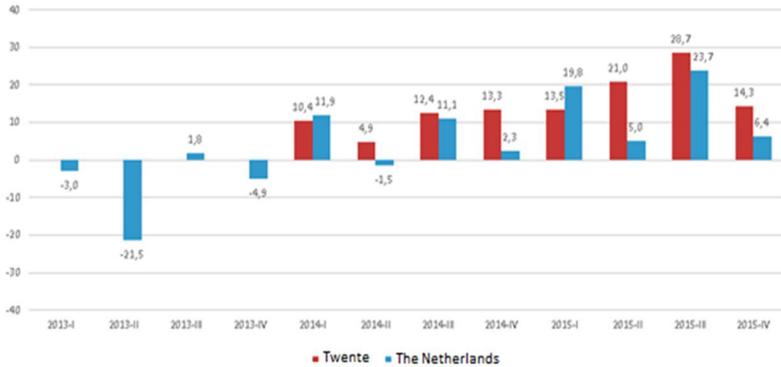


Figure 3

Net percentage of companies experiencing growth in turnover rates in Twente and The Netherlands, 2013 – 2015 (Kennispunt Twente, 2016)

1.4 Employment rate

In terms of percentage of employment in Twente, more people than average in The Netherlands are working in the industrial and agricultural sector. (Twente: 15,2% for industry and 3,2% for agriculture, Netherlands average: respectively 10,8% and 2,7%). Even though the employment in agriculture is quite low, the high productivity of these companies make it one of the strong exporting sectors in the country and therefore a significant economic sector for the country. In Industry, Twente has a higher than average percentage of jobs and companies in the High Tech Systems and Materials cluster, many of these are spin-offs from the University of Twente (Bazen & Bijleveld, 2012).

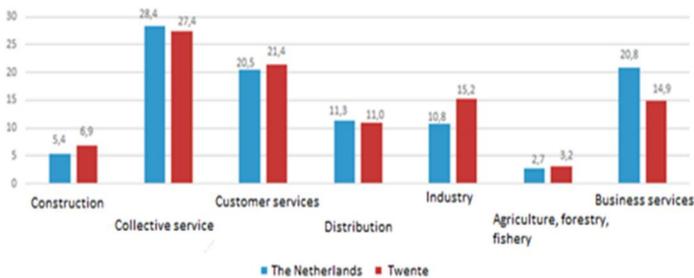


Figure 4

Employment structure in Twente (Kennispunt Twente, 2016)

1.5 Growth companies by sector

In the period 2013 - 2014 the number of companies in the industrial sector grew by 0,6% compared to the period 2012 - 2013. However, the agricultural sector decreased by 0,5%. The low growth rate in industry is usually contributed to outsourcing of production and computerization, and the decline in the agricultural sector to upscaling of farms.

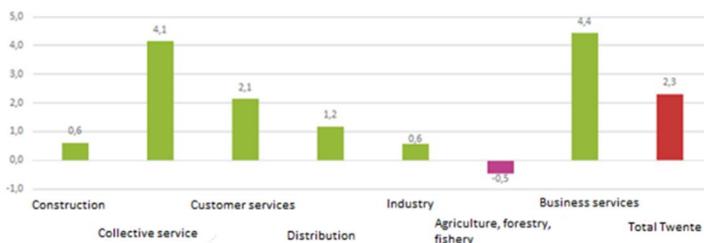


Figure 5
Employment growth in the region Twente (Kennispunt Twente, 2016)

2 Trade

In this section some characteristics of the trade between The Netherlands and Russia and Twente and Russia are presented.

2.1 Trade relations between The Netherlands and Russia

There is a significant trade relation between The Netherlands and Russia. Russia is one of its top-ten trading partners. In figure 6, the development of the export from The Netherlands to Russia can be seen. From an all-time high in 2012, there is a notable decrease of around 40% in 2015. From the already published preliminary numbers of January 2016, it looks like the falling trend is continuing. Based on this number and the occurring trends, a number of prognoses for 2016 have been calculated (among others based on the expected trends in the world oil price, and on the trends of the past years, leading to a low, medium and high scenario).

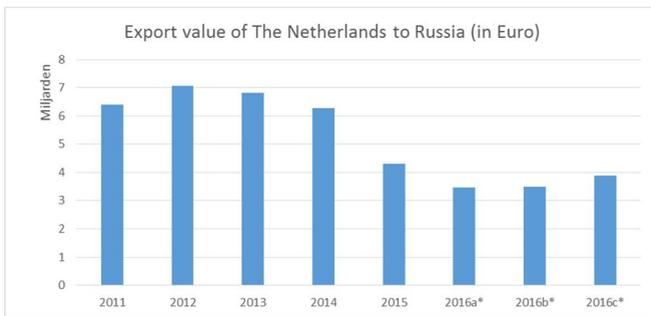


Figure 6

Development of export from the Netherlands to Russia (CBS, 2016)

Figure 7 shows the strong imbalance between the value of imports and exports in the trade between The Netherlands and Russia. Even though both numbers have fallen over the last couple of years, the imports from Russia to The Netherlands are still significantly higher. Given the current weak exchange rate of the Ruble, it is not expected that exports from The Netherlands to Russia will significantly increase, even if current sanctions would be lifted.

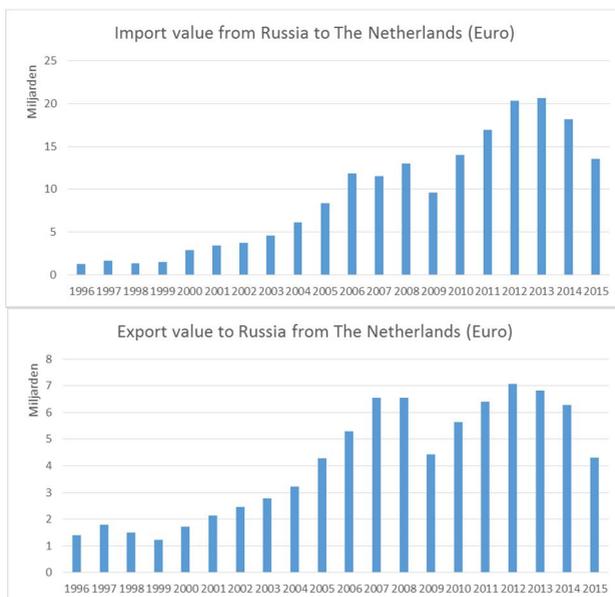


Figure 7

Long term development of import and export between Russia and The Netherland (CBS, 2016)

2.2 Trade relations between Twente and Russia

There is no direct way to calculate the exact export figures between the Twente region and the Netherlands. Based on the Gross Regional Product of Twente, the general employment structure in the different economic sectors and the total export of the region, a rather accurate estimation can be made about the volume of export of the region to Russia. It is clear that just like in the Netherlands, the volume of export to Russia has fallen extensively, and because of the relatively strong representation in Twente of sectors with more than average exports, business in the region is affected relatively strongly.

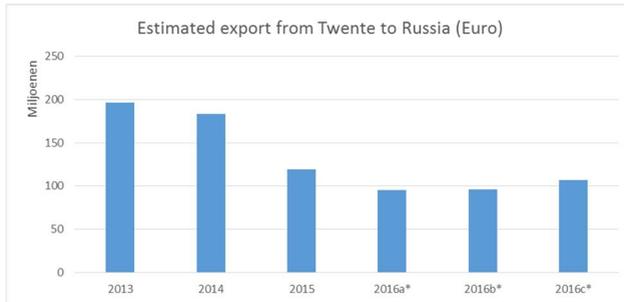


Figure 8
Estimated export from Twente to Russia (CBS, 2016)

3 Sanctions

In March 2014, the EU and the USA introduced the first sanctions against Russia. The EU did this by imposing travel restrictions and freezing assets of 21 Russian and Ukrainian diplomats (NU.nl/ANP, 2014; Council Decision 2014/145/CFSP, 2014)

In April 2014, these sanctions were followed up by a second round of sanctions. These sanctions contained amongst others assets freezing, visa or travel ban and an arms embargo (Council of the European Union Press Office, 2014). In July 2014, the EU expanded its sanctions to several other individuals and entities. (Council Decision 2014/508/CFSP, 2014) (Council Implementing Regulation (EU) No 810/2014, 2014)

The new sanctions included that the EU stopped providing European loans for Russian projects (ANP, 2014). At the moment there are 4 kinds of sanctions active

against Russia: capital market restrictions against a number of Russian state-owned banks and 8 large Russian state companies in the oil and defence sectors, an arms embargo (existing contracts are excluded), an export ban on goods and technology for dual-use to mixed end-users, and an export ban on certain equipment, technology and services for deep-water oil exploration and production, arctic oil exploration and shale oil (Rijksdienst voor Ondernemend Nederland, s.d.). All sanctions against Russia can be found on the website of Eur-Lex (Council Regulation (EU) No 883/2014, 2014). In June 2015 the sanctions has been extended until 31 July 2016 (ANP, 2015).

The Russian Federation itself has also introduced sanctions against the EU. The most important of these sanctions are: on the 25th of July 2014 Russia stopped allowing imports of fruit and vegetables from Poland; on the 7th of August that same year, Russia banned food products of the 28 member states of the EU, the USA, Australia, Canada and Norway; and in October 2014 Russia stopped the import of animal fats and certain meat products from the EU (NU.nl, 2015).

3.1 Influence of the sanctions on companies in Twente

Several companies in Twente with links to Russia were asked about the effect of the sanctions on their business. One of the interviewed companies for example, made 75% of their turnover from business with Russian companies. Even though this specific company did not fall under the sanctioned products / sectors as written above, after the sanctions were imposed, they were checked by customs of the EU and Russia, leading to extensive paperwork and bureaucracy, significantly slowing down operations, at least in the first stages of the sanctions.

For some interviewed companies, after the sanctions the percentage of turnover made in Russia decreased, however this cannot be fully blamed on the sanctions, as the competition of Russian and Chinese companies increased among others because of the weak exchange rate of the Ruble. Because of the disappearance of European products because of the sanctions and/or there less competitive position on the Russian market, Russia has adopted an import substitution policy. One of the examples of this is greenhouse technology. Russian greenhouse cultivation has increased since mid-2014, among others because of import of technology from the Netherlands since the import of the agricultural products themselves is no longer possible (Koster, 2015). All of this makes it much harder for Dutch entrepreneurs to enter the Russian market or remain competitive.

Some other companies said that they did not notice any influence of the sanctions on the revenue, and some other companies refused to release any information.

4 Conclusion

The sanctions between Russia and the EU certainly had influence on companies in Twente. As indicated, the agricultural and industry sector are relatively important in Twente, and those sectors did suffer from the sanctions, if not directly, then still by the extra paperwork and procedures that came with them, at least in the beginning.

It is very clear from the data that export volumes have sharply decreased, by over 40% the last couple of years. This is not just because of the sanctions, but also because of the weak Ruble, which makes European imports less attractive. For entrepreneurs, it became more difficult to do business with Russia or even to return to Russia if the sanctions would be lifted. This is because the Russian government actively pursued an import substitution policy and replaced the European products with domestic products or products from somewhere else than Europe. The weak exchange rate of the Ruble to the Euro, will keep domestic products more attractive than EU imports.

When having a look at the companies in the region Twente, it becomes clear that in individual cases some Small and Medium Sized Enterprises went bankrupt because of the sanctions, but these are exceptions. As can be seen in figure 2, the international trade balance for Twente remains strongly positive, which provides evidence that most companies shifted their target markets to different countries.

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