

ECONOMICAL AND POLITICAL RELATIONS BETWEEN EU AND RUSSIA AT THE PRESENT STAGE (2013-2015)

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***Abstract:** The relationship of the Russian Federation and the European Union, for most of the past decade and a half of the XXI century, which took place in a very positive way in most areas of a broad spectrum of interactions, for the first time faced with a serious test in the context of the large-scale military and the political crisis in Ukraine, erupted in late November 2013 and continuing to this day. The latter is a kind of "Rubicon", after the passage of which the Russian-European relations, which developed before in the whole steadily and rapidly, although not without problems, began to slide into the deep "corkscrew" mutual sanctions, and, as a consequence, a sharp slowdown in economic development. The purpose of this article is to review the state of relations between the EU and Russia at the present stage, particularly in the pre-crisis and crisis periods still ongoing, as well as determination of the prospects for their further development.*

***Keywords:** Russian Federation, EU, Ukraine, sanctions.*

Status of the EU-Russia relations before Ukrainian crisis. By the end of November 2013 (the start of the Ukrainian crisis) the European Union was the largest trading partner of Russia. In 2013, the EU's share was 49.4% of the total volume of Russia's foreign trade. In turn, for the EU, Russia is the third largest trade partner, which had in 2013 9.5% of EU's external trade. In 2013 the trade turnover between Russia and the European Union reached a record level of 326.3 billion euros - in other words, about a billion euros a day. During 20 years since the signing of the Agreement on Partnership and Cooperation between EU and Russia in 1994 (SPS), the turnover has increased by more than 10 times [1]. One can not assess the role of Russia as a leading energy supplier for the EU. Russia satisfies the need for one third of the EU's oil and natural gas demand, demand of almost a quarter - in the coal, oil and gas products [2].

EU and Russia constantly expanded their business, tourist, cultural, scientific and academic ties. In 2013 the borders of the Schengen area crossed 6.9 million Russian

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citizens. The parties continued to work on finding negotiated solution to the Iranian nuclear issue, the Middle East and the Transnistrian conflict settlement and other regional crises and conflicts.

The crisis in Ukraine and its impact on EU-Russia relations at the present stage. The events of 2013-2014 in Ukraine grew into the civil war. The process of the falling away from this state of some territories, along with the continuing today heavy military-political, economic and social crisis was a kind of "moment of truth" in the relations between the EU and Russia. Especially as the formal reason and "prologue" to it were the words the office of the then President of Ukraine Viktor Yanukovich, expressed in the "last minute" before the reluctant minded "European integration" to sign the Association Agreement with the EU, which was previously scheduled November 30 and envisaged the deepening integration between Ukraine and the EU in politics, trade, culture and the strengthening of security. This Agreement was planned to replace the former Agreement on partnership and Cooperation between the European Communities and Ukraine.

In fact, the country was in a hostage situation that requires geopolitical and even civilizational choice - to stay in the "orbit of influence" of Russia, with its project of the Customs Union of the Eurasian Economic Community (EAEC CU), or to integrate into Western structures, particularly the European Union. Thus, shortly before the Vilnius summit of "Eastern Partnership" - the project of integration of six Eastern neighbors (Ukraine, Moldova, Armenia, Azerbaijan, Georgia and Belarus) to the European socio-economic and political space through a comprehensive reform of some sectors - 28-29 November 2013, several media outlets reported that in fact "the question of accession to one or other integration associations (the European Union and the Customs Union of the Eurasian Economic Community) will depend on the financial benefits that Ukraine can get. So, from Russia Ukraine expected indulgences in the export oil and gas fields, from the EU Ukraine expected the debt relief and new lending [3]. However, the EU rejected as direct financial assistance, so as the facilitation of the access of Ukrainian goods to the European market [4].

After a serie of events of the spring of 2014 - namely, of the event of the voluntary (though in the presence of a powerful group of Russian troops) joining of the Crimea to Russia and following by the referendum of March, 18, the event of the self-declaration as the separate parts by the Donetsk and Lugansk regions of Ukraine, which were called the "people's republics" (7 and April 28, respectively), and the event of the ensuing beginning on April, 14 of the anti-terrorist operation (ATO) by the armed forces and other law enforcement agencies of Ukraine (including the so-called "volunteer battalions"), from 17 March the European Union started to impose sanctions against Russia, seeing in its activities directly support for the separatists, including by military means.

Nowadays the recently introduced sanctions continue to be administered in one form or another form. First the sanctions were introduced against certain individuals,

especially officials and businessmen. The parties, which started this sanctions, believed, that those individuals were responsible for the EU 's political and economic assistance to the Crimea, the DNI and LC, as well as the Kremlin's policy in the Ukrainian direction overall. Then the sanctions were introduced against the entire sectors of the economy. The consequences of sanctions were different for the various sectors of the economy. So, the high-tech industries, including space-rocket , aircraft and a number of other related sectors were largely affected by the difficulties of imports - especially of imports of microelectronics. Other sectors, as, for example, agriculture were in a different situation. The sanctions in agriculture created the need of the diminishment of import and increase of the production of the national products. So it can play a very positive role in building national production, which to a large extent depends on the guarantee from the state as well.

The negative consequence of the anti-Russian sanctions was the financial crisis in Russia in 2014-2015 years. It resulted in a significant decrease in the ruble exchange rate against foreign currencies, increased inflation, reduced real incomes. At the same time, contrary to expectations of the initiators (primarily the United States) they did not have any impact on changing the political course of Russia. Russia responded to the sanctions by the EU by the food embargo imposed by the decree of the Russian President on August 6, 2014. According to this decree it is supposed to prohibit the import into Russia of certain types of agricultural products, raw materials and foodstuffs, the country of origin of which is a state, which imposed economic sanctions against Russian officials.

The list of goods, which have fallen under the sanctions, were meat and dairy products, fish, vegetables, fruits and nuts. Gross annual volume of imports felt down under the sanctions and is estimated as \$ 9 billion [5]. Russian sanctions can have negative consequences for agriculture of the EU countries. Russia is the second largest importer of European agricultural products, after the United States. From losses will also suffer transport companies, which carried out the delivery of goods; banks that had made lendings to farmers; insurance companies, which will have to pay compensations to all victims. Within the EU itself there is no unanimity on the question of further tightening of anti-Russian sanctions. Opposition political forces of almost all EU states say about the need of the cancellation or mitigation of penalties and the need for dialogue with Russia. Leaders of a number of countries (Greece, Hungary, Czech Republic, Cyprus, etc.) make their speeches in favor of the normalizing relations with Russia. They fear that the extension or imposition of new sanctions can lead to the further escalation of the conflict in Ukraine.

At the same time, several members of the European Union (United Kingdom, Poland, the Baltic states) make a speech in favor of the retaining of the foreign policy line aimed at the pressure on Russia. In general, these countries support the US efforts to isolate Russia and weaken its political influence in Europe. An important role in the development of the relations between the EU and Russia is the position of key European

countries - Germany and France. German Chancellor Angela Merkel has repeatedly condemned Russia's policy towards Ukraine, including annexation of the Crimea. She was one of the initiators of sanctions against Russia, which, in particular, led to a reduction of trade turnover between Russia and Germany at 10-12% [5]. At the same time the position of Chancellor does not enjoy the unequivocal support of the political forces of the country and in the German establishment. Thus, German Foreign Minister Frank-Walter Steinmeier expressed doubts about the effectiveness of policies of tougher sanctions and of the increasing of the pressure on Russia [5]. Along with other EU countries, France joined the economic sanctions against Russia. In September 2014, France has warned of a possible suspension of deliveries of the helicopter equipment "Mistral" to Russia, accusing it of escalation of the conflict in the east of Ukraine. In December 2014, Paris finally announced its intention to suspend the supply of helicopter in Russia. Meanwhile, in a statement on January 5, 2015, shortly before the meeting in the "Norman format" in Astana, French President Francois Hollande made a statement about the possibility of abolition of the anti-Russian sanctions, linking it to progress in resolving the conflict in Ukraine.

In 2014 the volume of export of the German equipment to Russia decreased by 17% to 6,5 billion euros. In the first quarter 2015 export of the German equipment to Russia was reduced by 28% in comparison with previous year. Thus, in two years Russia fell from the fourth by the tenth place among the largest sales markets for the German machine-building branch, reports Deutsche Welle with reference to the report of Association of the German mechanics and producers of the industrial equipment VDMA.

According to forecasts of VDMA, in the current year it is possible to expect further losses: "The economic crisis in Russia, weakening of ruble and sanctions opposition of the country with the EU were negatively reflected in the German machine-building branch".

According to results of poll of 260 German enterprises of machine-building branch which are members of VDMA, 94% of respondents note serious falling of orders from Russia and decrease in demand for production. Shortage of financing for investments from Russia became one of the main obstacles for sales of the German production: the western banks reluctantly run business with the Russian business while clients hardly are able to afford the credits of domestic banks because of too high interest rates.

The branch reorients sales markets (China, the USA, France and Great Britain) became the priority directions for the German machine-building branch.

According to data of Eurostat, the economy of Finland endures recession. In the second quarter 2015 of GDP of Finland it was reduced by 0,4% in comparison with the last quarter and for 1% concerning the same period of annual prescription. Recession in the most northern country of the eurozone proceeds for three years, and gross release of the country remains lower than a level of 2008. Experts correlate falling of GDP to the response countersanctions entered by Russia. According to data of the

Finnish customs service, in 2013 nearly 10% of the Finnish export (€5,4 billion) were the share of Russia. After introduction of mutual sanctions of the EU and Russia in 2014 the share of the Russian market in structure of the Finnish export decreased to 8,3% (€4,6 billion), however Russia still takes the third place after Germany and Sweden among the countries — recipients of the Finnish goods.

Finland was one of the European countries which are most carefully approaching a question of economic sanctions concerning Russia. The prime minister of the country Alexander Stubb declared that Finland will be the main victim of “sanctions war” with Russia: “Delay of growth rates of the Russian economy will negatively be reflected in the volume of the export delivered to Russia. If the Russian economy falls to 3%, our GDP will be reduced by 0,5%”. The general commodity turnover of Finland and Russia in 2014 fell to 16% in comparison with 2013 and made €13,3 billion. And in the current year continues to decrease: only from January to May the Russian import to Finland fell to 37%, and export from Finland to Russia — for 35%.

A role in falling of a trade turnover between the countries was played by the embargo on import of products entered a year ago by Russia from the countries which inflicted sanctions on Russia. The ban on import of dairy, meat, fish products, fruit and vegetables affected 5% of the Finnish export to Russia, or about 0,5% of total exports of the country — €283 million in value terms. This loss makes 0,1% of the Finnish GDP, counted Bank of Finland.

The Finnish producer of Valio dairy products who else in 2013 exported nearly a half of the production on the Russian market became one of the most affected companies from the Russian embargo. Following the results of 2014 the company reported about falling of revenue in Russia more than for 30%, to €258 million. If not sanctions, then this indicator would exceed €400 million, the company complained.

The Russian crisis affected and the Finnish producer of tires Nokian Tyres who explained with devaluation of ruble falling of revenue in 2014 for 8,7%. The Finnish retailer of Stockmann started curtailing the Russian business against deterioration of financial results at all. In 2014 the operational loss of a distribution network in Russia grew by 4,5 times. The retailer declared closing of 16 shops of the clothes Seppala brand, 19 Lindex shops and three department stores Stockmann in Moscow.

One more branch where the Finnish companies strongly depend on Russia — is tourism. In 2013 visitors from Russia spent €1,4 billion in the Finnish hotels, in resorts and in duty-free shops — 33% of total income of Finland in the sphere of reception of foreign tourists. In 2014 visits by Russians of Finland (by number of spending the night) were reduced by 17,4%, according to the Visit Finland organization.

The response sanctions imposed by Russia seriously were reflected in exporters and producers from such countries as Greece, Lithuania, Poland, Germany, Finland, Norway and Spain.

The authorities of the European Union already declared readiness to provide financial aid to victims of food embargo — in particular, to producers of peaches, nectarines and other fruit and vegetables, and also dairy products. However a number of foreign observers and representatives of agro-industrial complex consider that the allocated funds will be insufficiently to help the companies which suddenly appeared in a difficult situation.

At the same time professor of Lappeenrantsky technological university in Finland of Yukh Vaatanen (Juha Väättänen) assumed that the strongest effect from the Russian response sanctions was swept up right at the beginning whereas in the long term most of the European producers are able to be reoriented on other markets.

In his opinion, the embargo entered by Russia only 3% of the European export and by that its consequences at the all-European level are insignificant though some states of the European Union very much suffer from it. But to removal of the European sanctions, in his opinion, can't promote, as the conflict nature not in the economic sphere, and political.

“From the European point of view, the sanction are directly connected with a situation in Ukraine. Now, when Russia imposed sanctions against the EU, the European Union doesn't recede in reply as the situation in Ukraine didn't change. The EU sees in it not an economic problem, but political, tied in Ukraine” — explained Yukh Vaatanen.

The research associate of the German council for the international relations Stefan Maister (Stefan Meister) also emphasized that economic influence of food embargo on the European Union is insignificant: “Perhaps, for the countries of Baltic and Poland it is really key market, but for a great number of other members of the EU it only one of many markets”.

Thus he recognized that in some cases — in particular, for producers of milk and chicken meat in Germany — the Russian embargo became a serious problem for the next years.

Stefan Maister didn't exclude that the representatives of agrarian and industrial complex affected by response sanctions in some years will be able to be reoriented on other world markets. It is promoted, according to him, by the movement for economic independence of Russia which starts gaining popularity in the European business circles.

On this background Stefan Maister hoped that Moscow and Brussels still wish to avoid escalation of intensity and to find a way out.

“If new sanctions are imposed, it will become even more difficult to resolve this conflict, to conduct negotiations, to look for compromises, to find common interests. In my opinion, the main threat that a key zone of common interests [Russia and the EU] — the power and economy — can become the biggest zone of the conflict between

two parties, and points on cooperation doesn't remain that will be disaster for Europe and disaster for Russia" — the analyst warned.

According to him, both in Russia, and in Germany gradually realize the extent of damage which the imposed sanctions cause to the economies. "Mission of sanctions — to show force, power, but them don't solve the conflicts. Sooner or later it is necessary to sit down together and to talk about interests and decisions." — Stefan Maister told.

At the same time the director of the French-Russian analytical center "Observo" Arnaud Dubien (Arnaud Dubien) noted that actions of the Kremlin forced many Europeans to reconsider the opinion concerning introduction of new sanctions against Moscow, and also expediency of the existing.

"Nobody expected such counter-measures, especially in this branch as all considered that Russia very strongly depends on import in respect of the food. Nobody thought that such answer is possible" — he emphasized, having added thus that the event forced certain European politicians to start talking about harm of the existing sanctions for economy of the European Union.

Along with it the expert specified that the released export niche in some months can be surely occupied by suppliers from such countries as Argentina, Brazil, Israel, the Republic of South Africa and others.

"Of course, here too there is a price moment. These countries are very far from Russia, and transport costs much. That is not the fact that apples from South America and South Africa will be very demanded by Russians owing to high cost. But counters won't be empty, I will tell precisely" — Arnaud Dubien explained the point of view, having added that the present situation is very favorable to intensive development of the Russian agrarian and industrial complex.

Throughout this subject the chairman of the board of the Belgian and Luxembourg chamber of commerce in Russia Arkady Arianoff (Arkady Arianoff) noted that the extremely negative consequences of the Russian countersanctions were felt by farmers in Spain, Greece, Belgium, Poland and other countries which are compelled to distribute free of charge or even to destroy perishable production.

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"The business community of Luxembourg having communications with Russia, and Luxembourg takes the third place on the volume of direct investments in the Russian Federation, an exchange of sanctions dissatisfied" — the expert gave an example.

By its estimates, the sanctions conflict will lead to substantial effects for the agrarian industry of the EU.

While the European officials do assumptions and make forecasts, producers of the countries of the European Union count losses. Especially the problem for landowners who because of sanctions lost a capacious Russian sales market is particularly acute. Warsaw already demanded from European Commission 176 million euros as compensation to the landowners. According to the chairman of the Italian party "League of the North" Matteo Salvini, loss of Italy made 2 billion euros. And in general losses of the European farmers from an exchange of sanctions are estimated at 5 billion euros.

It should be noted that crisis struck not only on agricultural producers, but also on industrialists. Therefore there is nothing surprising that Europeans even more often declare that sanctions of the West are counterproductive and inefficient. In this question the same opinion have the chancellor of Austria Werner Faymann, the president of the Czech Republic Milos Zeman, the prime minister of Hungary Viktor Orbán, the prime minister of Slovakia Robert Fico are solidary, ex-German chancellors Helmut Schmidt, Helmut Kohl and Gerhard Schröder. The methods conducting to confrontation don't promote reaching consensus and stabilization of a situation on the world scene. But while Europe tries to realize this truth, its economy loses growth rates and it risks to appear on the verge of the next long crisis.

Mutual sanctions of the countries of the West and Russia against a situation in Eastern Europe were already called "new cold war". This definition causes some disputes, however it is impossible to deny that fact that current situation is crisis and demands the fastest actions on its permission from all participants of the conflict.

It is difficult to speak about the reasons of emergence of this opposition: according to various estimates, the Ukrainian crisis can be considered both the main source of confrontation, and the catalyst of the becoming ripe contradictions [6] for a long time. But anyway sanctions fight which we can observe [7] to this day became a result. Than dangerously developed situation? For a start it is necessary to understand, what sanctions were imposed by the parties of the conflict.

Speaking about actions of the USA, we see that the White house in March, 2014 made the list of the anti-Russian measures which included sanctions not only against the certain people responsible for events in Ukraine, but also against the whole branches of the Russian economy [8]. Further Washington only continued to move according to the set vector, expanding sanctions lists.

The European Union, however, preferred to enter measures step by step. Initially only economic and visa restrictions on the Russian officials were introduced. Moscow answered it with imposition of sanctions by the mirror principle, counting on fast settlement of the conflict.

Restriction of financial operations for 33 Russian officials became the following step, also the European Union freezes assets of two Crimean companies - "Feodosiya" and "Chernomorneftegaz". Meanwhile Montenegro, Iceland, Albania, Liechtenstein

and Norway join execution of new sanctions lists of the EU. After carrying out early elections in Ukraine, the newly elected president Petro Poroshenko imposes a ban on military and technical cooperation with Russia, and the West toughens dot sanctions against members of political and economic elite of the Russian Federation which continues to react to these actions symmetrically.

The total annual volume of the import which fell under sanctions is estimated at 9 billion dollars [9]. The ban concerned delivery of meat production, vegetables and fruit, seafood and the cooled fish, milk and dairy products from the European Union countries, Australia, Canada, Norway and the USA.

At the beginning of September the European Union declares introduction of one more package of sanctions. They concern defense industry complex, the Russian oil companies and the largest banks.

By this moment it became obvious that the conflict approached a critical point, and in minds of people such, apparently, concept as "Iron Curtain" left in the past began to emerge again. Fears connected with similar prospect of succession of events remain still though prerequisites don't seem so obvious any more. Nevertheless, it is necessary to mention to what consequences led sanctions and that is even more important as they can affect us in the future.

To understand, what effect from sanctions we gain as a result, it is necessary to understand the mechanism of their action. First of all their efficiency depends on extent of integration of the country against which they are sent, to world economy. According to the rating published in April, 2014 by scientists of the Swiss economic institute KOF, Russia takes the 56th place on the general index of globalization, advancing such countries as Japan, South Korea, China and Brazil [10].

The Russian economy got used to the direct foreign investments from Europe giving not only money, but also technologies, and, having blocked their receipt, the EU painfully struck across Russia. It is visually visible on the following indicators: in 2014 the Russian issuers attracted in the international bond markets 9,5 billion US dollars in comparison with nearly 53 billion in 2013. In the share capital for 2013 10,3 billion dollars, while for 2014 - only 1,9 billion were attracted [11].

Russia is the third trade partner of the EU on the importance, and 7% of all export of goods from the union countries fall to its share. Therefore the European Union, imposing sanctions, certainly, endangers also own economy which suffers as from loss of the income connected with investments and sale of technologies into Russia and from response sanctions of Moscow. The damage of the EU from sanctions risks to make to one trillion euros, and the European producers already sound alarm, seeing own losses in the market of the food. However and Russia incurs huge losses because of sanctions opposition.

According to the IMF GDP growth of the eurozone in 2015 is corrected for 1,1% against a former assessment in 1,7% while GDP of Russia, according to forecasts, instead

of growth assumed earlier, will show falling for 3%. Thus the European commission lowered the forecast for growth of inflation for 2015 from 1,2% to 0,8%, and in Russia 12% against 11,4% last year are expected. Moreover, countermeasures of Moscow aren't for nothing nicknamed "anti-sanctions": they not only rendered damage of the EU, but also with a boomerang struck across Russia. As a result only because of increase in prices for the food the Russian consumers by November paid nearly 45 billion rubles for anti-sanctions, and additional expenses in a year can make 147,3 billion rubles.

It was initially supposed that the Russian food embargo is entered as a protective measure and "incentive for development of the Russian agrarian sector", however it is difficult to realize it in the conditions of recession of economy since huge investments which at the moment couldn't be taken [12] are necessary for import substitution and development of agrarian and industrial complex.

Seeing similar figures, involuntarily you ask a question: and whether there is a game of candles? Sanctions fight, eventually, isn't favorable to any of the parties, and in the conditions of falling of the world prices for energy carriers she only adds instability to the social problems which are already existing economic and, as a result. Certainly, any state wishes to advance on the world scene the geopolitical interests which value is indisputable, however you shouldn't forget about "the accompanying damage" of political decisions which always suffers the population, and the most unprotected members of society most of all suffer.

Another important question is the economic security. "Economic" dimension of national security is most closely connected with foreign trade: import dependence on goods or raw materials can be perceived as a sign of the country's external vulnerability. First of all, it concerns the vital goods: food, energy, strategic raw materials, secondly, the high-tech products, and thirdly, weapons. Major threats of the economic security in Russia The main strategic threat factors of economic security of Russia for the next ten – fifteen years are: commodity dependence of the economy and structural imbalance of the production; losses due to globalization; control of the national resources; uneven economic development of the regions of Russia; labor shortages and illegal labor migration; weak protection of national financial system from the global financial conditions; increasing corruption. Let's consider these factors in details.

1. Commodity dependence of the economy and structural imbalances of the production. This factor limits the investment in industries oriented to the domestic market, which seems to be very unstable. Many reasons for the continuing low investment attractiveness of the Russian economy for business are associated with the structural imbalance of production: hypertrophied high proportion of material-and energy-intensive industries, military-industrial complex and uncompetitive manufacturing sectors. In recent years, the proportion of the extractive industries in total industrial production continued to increase with a corresponding reducing of the share of other sectors of the economy. Such processes put the country into

dependence from the world market demand for energy resources and raw materials, on the one hand, and on the situation offers of the imported consumer and investment goods, on the other hand.

2. Loss of the control over national resources due to globalization. In the process of globalization occurs the massive penetration of the foreign, mainly multinational companies in the economy and infrastructure of other states. And already formed group of powerful multinationals which have huge capital, can influence the development of the social and economic life of many countries, including Russia. As a result, the country is forced out of the global economic processes increasingly becoming a raw materials exporter and a sales market of the imported products (services).
3. Uneven economic development of Russian regions due to important factors such as: the presence of depressive, crisis and backward territories (in socio-economic sense) and at the same time the existence of the structural changes in industrial production, accompanied by a sharp decrease in the share of the manufacturing production; violation of industrial and technological relations between enterprises of individual regions of Russia; widening of gap in the level of national income per capita population between the regions and subjects of RF.
4. Increasing corruption. According to the British company Maplecroft, dealing with the global assessment of the investment risks, in 2010 Russia first hit the top ten countries with an extremely risky business environment.
5. Weak protection of the national financial system of the world from the financial conditions. External threats of Russia's economic security are: the dependence of the rate of the rouble on the world currency, changes in the world prices and foreign trade, the excess of the capital outflows over its inflow (foreign investment), excessive import dependence, low share in export of final consumption products. Substantial and potentially danger for Russia could be the entrance in WTO: underestimation of the potential negative consequences of WTO membership can create serious external threats to Russia's security.

New challenges of the XXI century necessitated the development of the new institutions in order to ensure the financial and economic security of the state. This is important first of all for the countries having weakly structured economy, extremely limited economic potential or without products with large surplus value in the economy. Since the economic stability of countries with prevalence of the raw material industries depends on the fluctuations in world prices, these countries are forced to create sovereign wealth funds.

In Russia there are Reserve Fund and National Welfare Fund (NWF), formed after the separation of the Stabilization Fund, which happened 1February 2008. The Ministry

of finance of the RF gives the following definition of these funds. The Reserve Fund is a part of the federal budget assets. The Reserve Fund is dedicated to ensure financing of the federal budget expenses and maintaining federal budget balance in case oil and gas budget revenues decline. The Reserve Fund contributes to stability of RF economic development by means of reducing inflationary pressure and insulating national economy from volatility of earnings generated by export of non-renewable natural resources. Management of the assets of the sovereign wealth funds of Russia is executed by the Ministry of Finance of the RF in accordance with procedure and terms established by Government of RF. Bank of Russia may act as operational manager. NWF is a part of federal budget assets. NWF is dedicated to support pension system of RF to guarantee long-term sound functioning of the system. Fund's primer assignments are to co-finance voluntary pension savings of Russian citizens and to balance budget of Pension Fund of RF.

The existing procedure for the formation of the reserve funds in Russia faces a number of legislative problems. Thus, the volume of the income and assets in funds and their outflows as well, are not based on the logical economic calculations. Therefore, money can be withdrawn from the funds only by the authorities. Legislation in many other countries, such as the law on Pension Fund of Norway, does not allow the application of such methods. Oil and gas revenues of the federal budget are formed by: the tax on mining – of hydrocarbons (oil, gas, fuel, natural, gas condensate); customs duties on: crude oil; natural gas; products produced from oil.

A certain part of the oil income in the form of gas transfer is separated annually to in order to finance the expenditures of the federal budget. The quantity of oil and gas transfer is approved by the federal law on the federal budget for the next financial year and planning period in absolute terms, calculated as 3.7% of the gross domestic product projected for the relevant year.

After the formation of the gas transfer in full, oil and gas revenues go to the Reserve Fund. The standard value of the Reserve Fund is approved by the federal law on the federal budget for the next financial year and planning period in absolute amount determined on the basis of 10% of the projected amount of the gross domestic product for the relevant year. After filling the reserve fund with oil and gas revenues, the rest of money are delivered to the National Welfare Fund. At the same time, from the 1st of January 2010 until the 1st of January 2014 the standard value of the Reserve Fund is not determined, oil and gas revenues of the federal budget are not used for the financial provision of the gas transfer to the Reserve Fund and National Welfare Fund, and are sent to the financial provision of the federal budget. Another source of the financial resources of the National Welfare Fund are revenues from the management. Oil and gas revenues of the federal budget, the Reserve Fund and National Welfare Fund are recorded on the separate accounts of the federal budget, the Federal Open Treasury with the Central Bank of the RF, the calculations are carried out and the transfer of funds are executed by the Ministry of Finance of RF in the manner

prescribed by the Government of RF. At the same time, from January 1, 2010 until February 1, 2014 revenues from the management of the National Welfare Fund shall not be credited to the Fund, and will be directed to the financial support of the federal budget.

During the same period, separate accounting for oil and gas revenues of the federal budget will not be carried out, and the order of the payments and transfers of the funds in connection with the formation and use of the Federal oil and gas revenues of the budget, gas transfer, Reserve Fund and National Welfare Fund (NWF) will be suspended. Sovereign Wealth Fund is part of the federal budget. The purpose of the Fund is the of the providing co-financing of the voluntary pension funds, the balance of the budget of the Pension Fund of the Russian Federation. NWF should be a part of a sustainable mechanism for pensions of Russians for the long term. The resources of the National Welfare Fund allocated for these purposes are determined by the federal law on the federal budget for the next year and the planning period. The order of the co-voluntary pension savings of the citizens of the country is defined in the Federal Law of 30 April 2008 No 56 – FZ “On additional insurance contributions to the funded part of the retirement pension and state support pension savings”. The reserve fund is also a part of the federal budget. Its goal is to enforce the State’s spending obligations in the case of the declining revenues and gas revenues to the federal budget. Reserve Fund promotes sustainable economic development of the country reducing the inflationary pressures and the dependence of the national economy from price fluctuations of the world commodity markets.

The reserve fund is actually replaced the Stabilization Fund of RF. Unlike the Stabilization Fund, in addition to federal budget revenues from oil production and exports, the source of the formation of the Reserve Fund are also federal income budget from oil and gas exports. Reserve Fund can be used for the financing of the gas transfer and early repayment of the state external debt. The use of the Reserve Fund for the formation of the oil and gas transfer is carried out without changes in the federal law concerning the federal budget for the next financial year and planning period in case of the losses of gas revenues of the federal budget received for the relevant financial year. Limiting the scope of use of the Reserve Fund for financial support of oil and gas transfer is approved by the federal law on the federal budget for the next financial year and planning period. The use of the proceeds of the Reserve Fund for the financing of the gas transfer in the periods of the unfavorable conditions in world energy prices allows to pursue a balanced budget policy to ensure the stable socio-economic development of the country. As shows the international experience, the income from financial investments in securities are one of the the main sources of stabilization funds. In Norway, the share of such revenues to the State Pension Fund of the country is about 30-40% of the fund revenues.

The same potential have the Russian funds, but the conservative approach to the domestic sovereign funds led to their lower yield and rentability compared to the

other similar structures. If the investment strategy of the Russian funds will not change, their yield will remain low. The Norwegian scheme of the investments – investments in highly liquid foreign stocks (40%) and bonds (60%) could be efficiently used for Russian sovereign wealth funds. The above analysis is the result of complex economic and legal research of these problems.

In order to conclude, the existing system of the organization of the important for Russia 's strategic direction has significant disadvantages, including the scope of legal regulation of the functioning of the Reserve Fund and the national welfare; it needs a perfect mechanism of legal regulation that can provide control of the state and society the efficient use of resources of the Reserve Fund and NWF.

Challenges of the XXI century influenced the need for new institutions in order to ensure financial and economic security of the state. One of these financial institutions have become sovereign wealth funds. Russia needed to neutralize the adverse effects of a possible fall in oil prices. As result on the 1st of January 2004 was created the Stabilization Fund. In economics, the Stabilization Fund was intended to play a dual role. First, the financial resources of the fund could be used in case of the deteriorating of the external environment in order to cover the budget expenses. Second, under certain conditions, contributions to the Stabilization Fund could fulfill the function of sterilization of income.

Russian sovereign wealth funds - the Reserve Fund and National Welfare Fund existed since 2008. The management of the assets of those funds is executed by the Ministry of Finance of the Russian Federation. Operational management can be executed by the Bank of the Russian Federation. According to the information of the Ministry of Finance of the Russian Federation, the specialized financial entities are engaged to exercise particular functions related to management of the assets of the funds, then the Government establishes terms of such engagement and requirements to such entities.

According to the legislation, the assets of the funds can be invested in following ways (in one or all of them simultaneously): 1) purchase of foreign currencies (US dollars, euro, GB pounds) and allocation to the Federal Treasury's accounts with the Bank of Russia which pays interest on them according to bank account agreement; 2) purchase of foreign currencies and financial assets denominated in Russian ruble and eligible foreign currencies (further – eligible financial assets). The Government determines broad limits of strategic asset allocation of the sovereign wealth funds. In order to enhance efficiency of management the Ministry of Finance is authorized to establish strategic asset allocation within the limits determined by the Government. According to the Ministry of Finance data on February 1, 2014, the Reserve fund amounted 3 070.74 billion roubles or 87.13 billion U.S. dollars, the size of the National Welfare Fund, which purpose is to cover the deficit of the Pension Fund, was 3 079.94 billion roubles or 87.39 billion U.S. dollars (on January 1, 2014 - 2 900.64 billion, or 88.63 billion U.S. dollars). The amounts on the accounts of the Reserve Fund are as

follows: 38.08 billion U.S. dollars, 29.40 billion euros, 5.40 billion pounds. On March 1, 2014, the Reserve fund amounted 3148,08 billion roubles (4,3% of GDP) or 87.33 billion U.S. dollars, the size of the National Welfare Fund was 3 145.34 billion roubles (4,3% of GDP) or 87.25 billion U.S. dollars.

The amount of income from the placement of the resources of the Reserve Fund in foreign currency accounts in the Bank of Russia for the period from January 15, 2013 to January 15, 2014 was 5.17 billion rubles and in January 2014 has been credited to the federal budget. The total estimated amount of income from the placement of the Reserve Fund in foreign currency accounts in the Bank of Russia, recalculated in dollars, for the period from 15 till 31 January 2014 amounted 0.13 billion U.S. dollars, equivalent to 4.41 billion rubles. Exchange differences on revaluation of balances in these accounts for the period 1 to 31 January 2014 amounted 211.02 billion rubles.

The amount of income from the placement of National Wealth Fund in foreign currency accounts in the Bank of Russia for the period from 15 January 2013 till 15 January 2014 was 3.79 billion rubles and in January 2014 these sums were enrolled in the federal budget. The total estimated amount of income from the placement of National Wealth Fund in foreign currency accounts in the Bank of Russia, recalculated in dollars, for the period from 15 to 31 January 2014 was 0.10 billion U.S. dollars, equivalent to 3.35 billion rubles. Exchange differences on revaluation fund for the period from 1 to 31 January 2014 was 179.30 billion rubles. The allocation of NWF assets to deposits in Vnesheconombank is shown at the site of the Ministry of Finance of the Russian Federation. According to the data of the Ministry of Finance of Russia, the allocation shall comply with the following requirements: "a. currency of deposit can be Russian ruble, US dollar, euro or GB pound; b. maximum overall amount that can be deposited in Russian rubles is 955 bln. rubles under following conditions: - up to 175bln. rubles can be deposited according to the terms stipulated by the Ministry of Finance; - up to 410 bln. rubles can be deposited according to the terms established by the Government of the Russian Federation under following conditions: 1) till 31 December 2019 at an annual rate of 6.25%; 2) till 31 December 2020 at an annual rate of 7.25%; - up to 40 bln. rubles can be deposited till 1 June 2020 at an annual rate of 6.25% according to the terms established by the Government of the Russian Federation; - up to 30 bln. roubles can be deposited till 31 December 2017 at an annual rate of 6.25% according to the terms established by the Government of the Russian Federation - up to 300 bln. roubles can be deposited at the latest by 31 December 2012 till 30 December 2022 at an annual rate of 6.25% according to the terms established by the Government of the Russian Federation. 1 January 2016 the volume of the National Wealth Fund of Russia amounted 71,72 billion US dollars or 5227,18 billion roubles. This volume equals 6,6% of the Russian GDP (Table 1.). 1 January 2016 the volume of the Reserve Fund of Russia amounted 49,95 billion US dollars or 3640,57 billion roubles. This volume equals 4,6% of the Russian GDP (Table 2.).

Table 1
Aggregate amount of the National Wealth Fund*

<i>Date</i>	<i>in Billion US dollars</i>	<i>in Billion rubles</i>	<i>as Percentages of GDP**</i>
01.01.2016	71,72	5 227,18	6,6%
01.12.2015	72,22	4 784,05	6,5%
01.11.2015	73,45	4 728,39	6,4%
01.10.2015	73,66	4 878,80	6,6%
01.09.2015	73,76	4 903,67	6,7%
01.08.2015	74,56	4 398,15	6,0%
01.07.2015	75,65	4 200,53	5,7%
01.06.2015	75,86	4 018,51	5,5%
01.05.2015	76,33	3 946,42	5,4%
01.04.2015	74,35	4 346,94	5,9%
01.03.2015	74,92	4 590,59	6,2%
01.02.2015	74,02	5 101,83	6,9%
01.01.2015	78,00	4 388,09	6,0%
01.01.2014	88,63	2 900,64	4,1%
01.01.2013	88,59	2 690,63	4,0%
01.01.2012	86,79	2 794,43	4,7%
01.01.2011	88,44	2 695,52	5,8%
01.01.2010	91,56	2 769,02	7,1%
01.01.2009	87,97	2 584,49	6,3%
01.02.2008	32,00	783,31	1,9%

Table 2
Aggregate amount of the Reserve fund*

<i>Date</i>	<i>in Billion US dollars</i>	<i>in Billion rubles</i>	<i>as Percentages of GDP**</i>
01.01.2016	49,95	3 640,57	4,6%
01.12.2015	59,35	3 931,08	5,3%
01.11.2015	65,71	4 229,98	5,8%
01.10.2015	70,51	4 670,50	6,4%
01.09.2015	70,69	4 699,53	6,4%
01.08.2015	72,93	4 302,18	5,9%
01.07.2015	76,83	4 265,65	5,8%
01.06.2015	76,25	4 039,27	5,5%
01.05.2015	76,41	3 950,49	5,4%
01.04.2015	75,70	4 425,75	6,0%
01.03.2015	77,05	4 720,74	6,4%
01.02.2015	85,09	5 864,90	8,0%
01.01.2015	87,91	4 945,49	6,7%
01.01.2014	87,38	2 859,72	4,0%
01.01.2013	62,08	1 885,68	2,8%
01.12.2012	61,40	1 906,89	2,8%
01.11.2012	61,35	1 934,08	2,9%
01.01.2012	25,21	811,52	1,4%
01.01.2011	25,44	775,21	1,7%
01.01.2010	60,52	1 830,51	4,7%
01.01.2009	137,09	4 027,64	9,8%
01.02.2008	125,19	3 057,85	7,4%

*An aggregate amount of the National Wealth Fund consists of:

- 1) balances on Federal Treasury's accounts with the Central Bank of the Russian Federation in rubles and foreign currencies;
- 2) amounts on deposits with Vnesheconombank, VTB Bank (public joint-stock company) and «Gazprombank» (Joint-stock Company);
- 3) value of the purchased securities.

The exchange rates of foreign currencies and cross rates for the calculation purposes on each date are official exchange rates of foreign currencies against ruble set by the Central Bank of the Russian Federation on date previous to report date and cross rates calculated by use of mentioned official exchange rates. Securities are valued mark-to-market or at purchase price (the Order of the Ministry of Finance of the Russian Federation No 49n dated 8 May, 2008).

The accrued interest for relative period treated as investments return on balances on the foreign currency accounts with the Central Bank of the Russian Federation, percent income on deposits with Vnesheconombank, VTB Bank (public joint-stock company) and «Gazprombank» (Joint-stock Company) and income on the securities are not included.

** Actual value of GDP in corresponding fiscal year published by the Federal State Statistics Service (Rosstat) is used. Forecasted value of GDP according to the Federal law on the federal budget for the corresponding fiscal year is used until the data on actual value of GDP is published.

Source: Ministry of finances of Russia, www.minfin.ru.

So, the statistics of the Ministry of Finance indicates the presence of huge financial resources. From the creation of such funds an important issue has always remained the effective management. It was proposed to store the resources of the funds in foreign securities, use in order to overcome the dependence on raw materials, the development of infrastructure and long-term research and development projects. Also was considered the possibility of the transfer of the resources and management of the Reserve Fund and the National Welfare Fund to the Joint Stock Company. State Duma of Russia has considered the law "On Amendments to the Budget Code of the Russian Federation and the establishment of requirements to workers of the specialized financial institution to be established by the government", which was introduced by the Government. The notion of a specialized financial institution meant the establishment by the state of the "Russian Financial Agency", which had to manage the money received from the oil surplus. Asset management of the Reserve Fund, the National Welfare Fund, as well as public debt management had to be transferred to this agency.

In turn, "Russian Financial Agency" could transfer these funds in trust to another management companies. The adoption of this law actually means keeping "privatization" of the Reserve Fund and National Welfare Fund. This law can completely cancel the previous goals and objectives of the Reserve Fund and National Wealth Fund as a "safety cushion for a rainy day" and as a form of fighting inflation by sterilizing the money supply.

The draft law has caused multiple discussions. The first controversial issue is the authority of the new company, to which it was planned to transfer funds of funds. The transfer of the funds to the "Russian Financial Agency" could become a source of additional financial speculations. After the adoption of the law the use of the state

reserves would be given to people who are generally unrelated to the state authorities. It means that the control by society over the expenditure of money, which will not be used for the improvement of life in Russia, will be reduced almost to zero. Also the greatest number of questions and doubts both by the experts and the media has caused a legal form of the new financial institution - a public corporation. The fact, there were two close concepts that are difficult to fit together in the public opinion - the notion of budgetary funds, which must be the sphere of the public interest, and the notion of a joint stock company, which deals with the individual commercial risk.

Another contentious issue was the amount of control participants of the sovereign wealth funds and the role of the Ministry of Finance and the Central Bank in the case of transfer of the resources of the funds to the joint-stock company. The current version of the Budget Code suggests that the management of the Reserve Fund and National Welfare Fund is operated by the Ministry of Finance of the Russian Federation. The individual mandate may be transmitted through the Reserve Fund - the Central Bank and by the National Welfare Fund - The Central Bank and the specialized financial organization. The draft law on "Russian Financial Agency" excluded the Central Bank and other financial institutions as participants which could perform the functions of placing and accounting of the Reserve Fund and National Welfare Fund and gave the whole management process to a specialized financial institution, established as a joint stock company. Thus, the expression of the authors' of the draft law that at the first stage it will be transferred not 5.3 trillion rubles, but only a part - 100 billion or 250 billion, did not correspond to the text of the draft law.

The third trend of discussions was the efficiency and profitability of sovereign wealth funds. The Budget Code did not set a goal to increase the yield from the management of sovereign wealth funds. On the contrary, the paragraph 2 of Article 96.11 says: "Management of the Reserve Fund and National Welfare Fund in order to ensure a stable level of income from their placement in the long term allows the possibility of negative financial results in the short term" Thus, the objectives and management of the Reserve Fund and National Welfare Fund allowed negative results.

The fourth trend of the discussions was about the role of the new agency on the financial market and its financial operations with resources of the sovereign wealth funds. "Russian Financial Agency" planned to do both operations of deposits and borrowings, it means that it would be allowed to the same organization to conduct active and passive operations in the market. This is unacceptable as a basis for large-scale fraud and insider speculation, which is almost impossible to identify and control. There were no such precedent in economic practice, that the state itself could set the rules and itself could play in the stock market.

Thus, the adoption of the law and the transfer of the fund management to the joint stock company would not only complicate its management, but also can significantly destroy all the process of the functioning of the Russian sovereign wealth funds. At

the moment the sovereign wealth funds of Russia remain the source of the financial resources which needs an effective management.

The future of the Russian-European relations nowadays directly depends on decisions which will be made by the parties of the conflict soon. According to the vice-president of European Parliament Miguel-Ángel Martínez-Martínez, "The Russian Federation and the European Union are two considerable actors on the world scene whom it is possible to call brothers and probably even Siamese: it is possible to criticize the Siamese brother, but it is senseless to impose against him sanctions, since it all the same what to enter them against itself" [13]. Thus experts agree in opinion that the European investors can return quickly enough to Russia in case of stabilization of a situation.

Thus, the Russian economy still has chance of receiving the financial injections necessary for restoration, and the European producers and investors - on return to the Russian market. More difficult affairs with the USA are. The Russian-American relations never differed in special warmth, and that fact that this year the Congress was headed by republican opposition which will put additional pressure upon Barack Obama, only aggravates a situation. Nevertheless, the Russian damage from sanctions from the USA is represented considerably smaller, on condition of stabilization of the relations with the EU.

Perhaps, current opposition also doesn't repeat the scenario of "cold war", however, as well as "cold war", it is a game of survival, and all of us well know that in this game the price of a victory is greatest for all parties. Whether all of us are ready to pay it? It does not seem so. In July, 2015 there was an opportunity to revise sectoral sanctions, which was presented to the European Union. However the vector on extension of sanctions was accepted.

Thus, our general task is the fastest solution of the problems of interstate communication caused by a crisis of confidence between the countries. In the modern world any country can't normally develop in isolation from the others, and it means that the new round of the Russian-European relations is simply inevitable.

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