

PRAGUE SECURITY STUDIES INSTITUTE (PSSI) / OCTOBER 2017

HARSH EXPECTATIONS VERSUS A MODEST REALITY:

ECONOMIC RELATIONS BETWEEN THE VISEGRAD COUNTRIES AND RUSSIA SURROUNDING THE UKRAINIAN CRISIS

By Prague Security Studies Institute

In cooperation with:

Slovak Foreign Policy Association

The Centre for Polish-Russian Dialogue and Understanding

Centre for Euro-Atlantic Integration and Democracy

Supported by:

International Visegrad Fund



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AUTHORS

Jakub Tomášek, Barbora Chrzová and Jonáš Syrovátka (Prague Security Studies Institute)

Simona Blašková and Dušan Fischer (Slovak Foreign Policy Association)

Ernest Wyciszkiewicz (The Centre for Polish-Russian Dialogue and Understanding)

Csaba Weiner (Institute of World Economics of the Centre for Economic and Regional Studies of the Hungarian Academy of Sciences) —
his work was also supported by the János Bolyai Research Scholarship of the Hungarian Academy of Sciences

András Deák (Centre for Euro-Atlantic Integration and Democracy & Institute of World Economics of the Centre for Economic and Regional Studies of the Hungarian Academy of Sciences)

INTRODUCTION

With the beginning of the millennium, the Visegrad countries – the Czech Republic, Poland, Hungary and Slovakia, started to improve their relations with Russia, which had only recently recovered from the turbulent times following the disintegration of the Soviet Union. Due to historical linkages and favourable geographical location, this development, together with the 2004 enlargement of the EU, set in motion various processes that had a positive effect on their mutual cooperation. Nevertheless, the Russian annexation of Crimea and its involvement in the war in Eastern Ukraine represented a major shift in relations with Russia for the Visegrad countries. Beyond the political level, the rise in tensions between the West and Russia soured over the crisis, and these tensions had a significant impact also on mutual economic ties and cooperation between Russia and the Visegrad states.

Since March 2014, the EU began to adopt a series of restrictive measures against Russia in response to the annexation of Crimea and the continued support for destabilization in Eastern Ukraine. In particular, the EU targeted persons and legal entities responsible for actions which appeared to undermine the territorial integrity and independence of Ukraine (their list has gradually expanded and currently includes 153 people and 40 entities) and restricted economic exchange with Crimea. In addition, the so-called sectoral

sanctions were introduced. They limited the export of weapons or dual use goods (items that could be used in the military industry) and curtailed access to certain sensitive technologies and services that could be employed for oil production and exploration. The EU imposed also restrictions on mid-and long-term crediting for a list of sanctioned companies. The duration of sanctions has been conditioned on the full implementation of the Minsk agreements.¹ In August 2014, Russia responded to these actions with its own counter-sanctions. It adopted a decree banning the imports of selected agricultural products, raw materials and food supplies from countries and organisations that were behind the enactment of Ukraine-related sanctions upon Russia.

Despite the Visegrad countries' continued support for the prolonging of the sanctions, which were ultimately designed to alter Russia's behavior in Ukraine, a clear asymmetry between the official diplomatic positions and the political rhetoric directed at domestic audiences is often visible. Several politicians and business representatives from the Visegrad countries have vocally challenged the effectiveness of sanctions and called for their dissolution, the overarching argument being that Russia represents an indispensable market for their countries. Given the continuing popularity of this rhetoric, thus undermining the official diplomacy of

¹ The so-called Minsk II agreements were signed by Russia, Ukraine, Germany and France in 2015 after the apparent failure of the Minsk agreements concluded by Russia and Ukraine in 2014. It provides a detailed roadmap for resolving the conflict in Ukraine, its implementation should be overseen by the OSCE.

the Visegrad countries and causing confusion among their European partners, it is therefore important to ask: to which extent are such claims relevant? In which ways did the conflict in Ukraine and the severe cool-down of relations with Russia influence mutual economic cooperation and economic performance of the individual Visegrad countries?

This study seeks to answer these questions by shedding light on the development of economic relations between the individual Visegrad countries and Russia prior to the conflict in Ukraine, and highlighting changes and continuities following the imposition of sanctions regime. It draws on various findings of a year-long project that sought to examine impacts of sanctions on the economies of the Visegrad countries, assess bilateral instruments meant to foster economic cooperation, and delve into the extent to which linkages in the economic domain can affect political decision-making. In addition, it took into consideration energy dependencies on Russia, as an important factor in mutual relations.

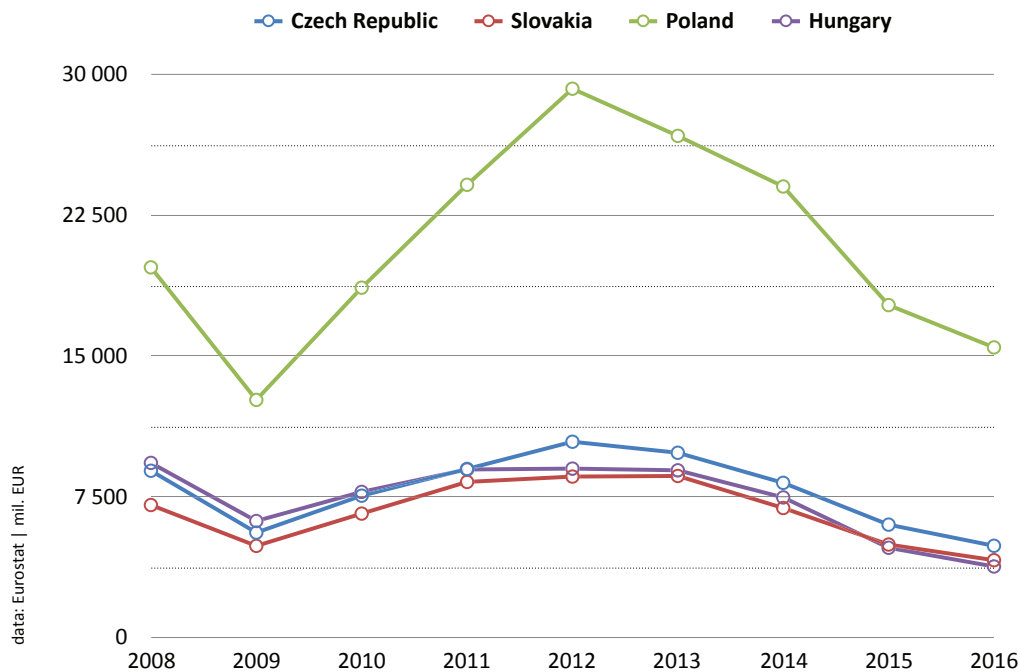
This project was led by the Prague Security Studies Institute (PSSI, Czech Republic) in cooperation with three think-tanks from the other Visegrad

countries: The Centre for Polish-Russian Dialogue and Understanding (CPDRiP, Poland), the Centre for Euro-Atlantic Integration and Democracy (CEID, Hungary), and the Slovak Foreign Policy Association (SFPA, Slovakia). Each of the project partners have been responsible for delivering analyses concerning their respective countries and contributing to this study.

In order to stress the regional dimension and point out similarities and differences among Visegrad countries' economic relations with Russia and approaches towards it, the structure of the study is organised by topics rather than countries. The first chapter provides a summary of the development of individual countries' trade relations with Russia. The second chapter assesses impacts of sanctions and map political debates accompanying them. The third chapter explores how the worsening of relations with Russia influenced the work of institutional mechanisms designed to promote mutual economic cooperation. The last chapter looks into Russia's role in energy supplies to the Visegrad countries and their political implications.

THE DEVELOPMENT OF TRADE BETWEEN THE VISEGRAD COUNTRIES AND RUSSIA, 2008—2016

Graph 1: Bilateral trade of the Visegrad countries and Russia



Czech Republic

In terms of trade volume, Czech-Russian economic relations reached its peak in 2012, after a slight decline caused by the 2008 global economic crisis. From a historical perspective, bilateral trade dynamics hit its lowest point at the end of the 1990s as a result of the reorientation of the Czechoslovak economy towards western markets and Russia's economic difficulties.

Even before enlargement of the EU in 2004, Czech exports destined for the Russian market began to demonstrate an upward trajectory. During the years 2003-2012 these exports increased by approximately tenfold. In 2012, they made up 3,8 % of total exports. On the other hand, Czech imports from Russia were even higher and in 2012 they represented 5,2 % of total imports.² At the time, Russia ranked among the top five importing countries for at least seven consecutive years. As can be seen in Graph 2, the Czech Republic

has traditionally maintained a trade deficit with Russia. On the import side, Russia has predominantly supplied strategic raw materials in the form of oil and gas. According to the Standard International Trade Classification (SITC)³, the category of mineral fuels, lubricants and related materials (SITC 3) composed 86 % of the total imports from Russia, while in 2016 this percentage dropped to 65,7 %. This drop, however, mainly reflects the plunge in commodity prices rather than an actual drop in import volumes. Exports to Russia have been heavily oriented towards the machine industry. In 2013, machinery and transport equipment (SITC 7) heading to Russia represented 71 % of total exports, and by 2016 this figure has decreased to 61,5 % (See the Supplement for more details about the structure of Czech trade with Russia). In addition, within this category, the car industry represented almost half and thus contributed with approximately

² If not mentioned otherwise, all data used in this study come from Eurostat.

³ See the Supplement for the classification.

30% of the share in terms of exports destined for the Russian market.⁴

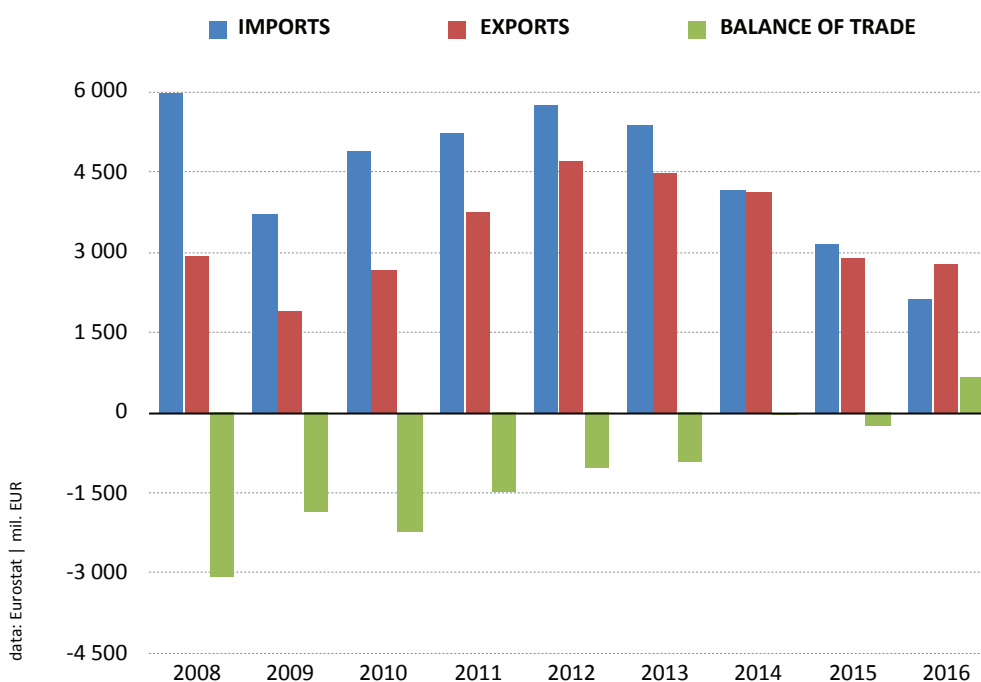
The growth of Czech-Russian bilateral trade started slowing down in 2013 and since 2014 the value of the trade has experienced a sharp decrease. The mutual trade between Czech and Russian markets experienced a significant fall around the second half of 2014 in light of the adoption of sanctions against Russia, then fully materialized in 2015 reflecting the plunge in oil prices and continued into 2016. To give a sense of the change, in 2016 Russia with a share of 1,9 % appeared in thirteenth place on the list of the most important export destinations, whereas in 2013 it was ranked seventh (Graph 3). The decline in imports has been even more significant, especially thanks to a decrease in commodity prices. The share fell to 1,6 % of total imports in 2016 and Russia currently ranks thirteenth on the list of importing countries (Graph 4). As a result, in 2016 the Czech Republic for the first time achieved a positive trade

balance with Russia (Graph 2). Between 2012–2016 a total trade turnover with Russia fell by more than 54 % from 10,3 billion euro to 4,8 billion euro.

Even though the Russian foreign direct investment (FDI) remains relatively small in comparison to other countries, there is at least one case worth mentioning. The company Škoda JS, which focuses on the production of components for nuclear power plants, was bought in 2003 by the company OMZ (owned by Russian state company Gazprom). Škoda JS takes part in projects concerning nuclear plants abroad, including the modernization of Hungarian nuclear plant Paks, and supervises the technological state of Czech nuclear power plants.

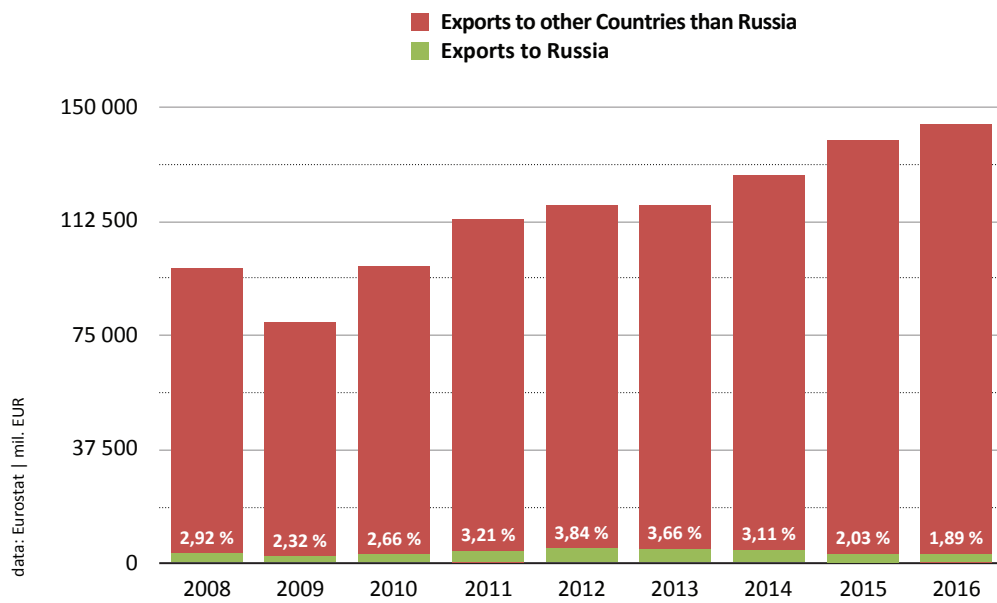
Although these numbers might not seem significant when placed in the context of trade dependencies within the EU, which accounts for more than three quarters of the total of Czech foreign trade, Russia still ranks among the most important trade partner outside of the European Union.

Graph 2: Czech-Russian Bilateral Trade

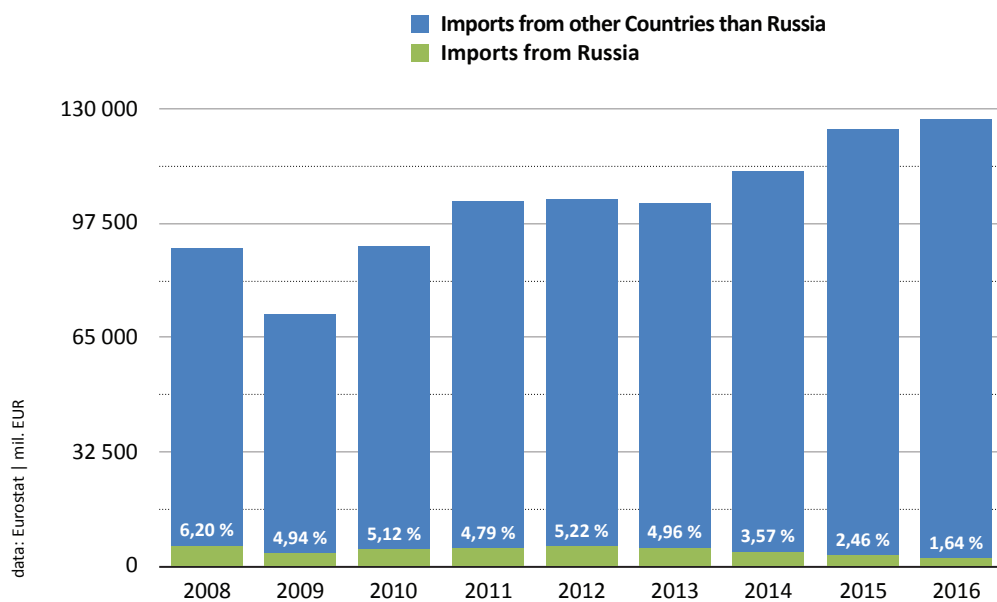


⁴ "Materiál „Hodnocení dopadů sankcí v rámci ukrajinské krize“," The official governmental document assessing impact of sanctions, https://ipodpora.odborny.info/soubory/dms/wysiwyg_uploads/a05b113e9f39c8af/uploads/Hodnoceni-dopadu-sankci-v-ramci-ukrajinske-krize.pdf (accessed 10/01/2017).

Graph 3: Czech Exports to Russia and Other Countries



Graph 4: Czech Imports from Russia and Other Countries



Poland

Trade relations between Poland and Russia after the 2004 enlargement of the EU had a very positive upward trajectory. Trade turnover increased up to 26,8 billion euro in 2013 (almost tenfold since the beginning of the millennium). The composition of goods traded was at that time, and still is, typical of Russia's relations with other developed states. Russia supplied mostly fuel and energy carriers (oil, oil products, gas, coal) to Poland while Poland supplied a wider array of goods (machinery, manufactured goods, chemicals, food and beverages). As can be seen in the Graph 5, Poland had traditionally maintained a significant trade deficit with Russia (second only to China) due to high crude oil and natural gas prices.

To put these numbers in their proper context, Russia has consistently been in the past an important trade partner for Poland, but never a vital one. In 2010, Polish exports to Russia accounted for 4,2 % of its total exports, which put the Eastern neighbor on par with the Netherlands, or somewhere between Slovakia and the Czech Republic if the Visegrad countries are taken as a reference point. In just five years, however, Russia's ranking has fallen (to 2,9 % of total exports) due to political and economic turmoil caused by sanctions against the Kremlin (Graph 6). Thus, the value of Polish exports to the Czech Republic (6,6% share in 2015)⁵ – a country whose population is just a quarter of Poland's – more than doubled the value of exports to Russia, which has a population four times the size of Poland's. These numbers underline the dichotomy between the real and perceived importance of the Russian market for Polish producers. Polish exports have been mostly directed towards the EU market (above 75 % on average). As a result, the vulnerability of Polish exporters, though not negligible, was relatively low, in particular when real data was confronted with quite a popular image of a sizeable and profitable Russian market.⁶

The value of the Polish-Russian trade turnover has ostensibly suffered a decline from 26,8 billion euro in 2013 to 15,5 billion euro in 2016. Fewer exports to Russia were caused by both the restrictions on imports of Polish food and failing domestic demand in Russia brought on by the recession and the weakening of

the ruble. The drop in the value of imports from Russia can mainly be explained by lower oil prices (Graph 7). However, weaker trade relations between Poland and Russia did not affect the overall, positive dynamics of Polish exports which rose by 28,6 billion euro from 2013–2016, despite the drop in the value of exports to Russia by 2,9 billion euro. Moreover, foreign trade aggregated data indicates that Poland benefited from the drop in fuel prices as there was a significant decrease in Poland's trade deficit with Russia, from 10,5 billion euro in 2013 to 5,1 billion euro in 2016 (Graph 5).

When it comes to investments, their respective FDIs prove inconsequential, highlighting an unusual symmetry between the two countries. The cumulative Polish FDI in Russia is negligible (though important for some individual Polish companies). The same can be said for Russia's FDI in Poland. It is limited to Gazprom's share in the ownership of the Yamal-Europe gas pipeline, the ownership of a network of gas stations by Lukoil and – to include a less politically sensitive domain – the Russian Standard takeover of some traditional Polish brands of vodka. Again, in comparison to Western investments it is close to nothing.

However, this analysis is not complete. Russian companies, with the support of their government, repeatedly tested Poland's willingness to pave the way for larger Russian involvement in their economy. These efforts were targeted at refineries, the chemical industry (Russian Acron's attempt to take control over Polish chemical holding Azoty for example) and banks (Sberbank's unsuccessful effort to buy Alior Bank). Such efforts were primarily intended to stretch the value chain of the Russian oil and gas sectors through the seizure of major consumers of Russian fuels and feedstock. Both official proposals put on the table by representatives of the Russian government, and closed-door attempts for hostile take-overs failed.⁷ Subsequent Polish governments were afraid that Russian ambitions toward their economy were not just commercially, but also politically, driven. This conviction was reinforced by recurring episodes of both large and small-scale gas crises directly related to Russian-Ukrainian disputes, and interpreted as a way to both apply pressure on Poland and promoting Russian interests abroad (e.g. Nord Stream). Highly

⁵ "Yearbook of Foreign Trade Statistics 2016," *Central Statistical Office of Poland*, <https://stat.gov.pl/en/topics/statistical-yearbooks/statistical-yearbooks/yearbook-of-foreign-trade-statistics-2016,9,10.html> (accessed 20/02/2017).

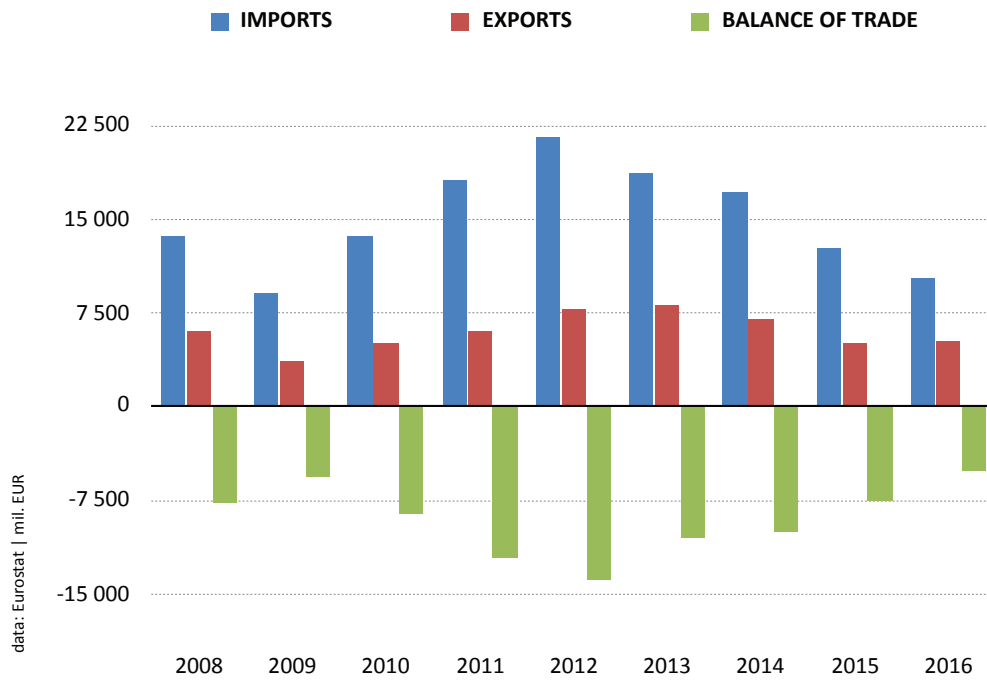
⁶ "Raport – Skutki rosyjskiego embargo na polskie produkty," *Związek Przedsiębiorców i Pracodawców*, (Union of Entrepreneurs and Employers), September 2016, Warszawa, http://zpp.net.pl/upload/omt8u0_08.09.2016RaportZPPSkutkirosyjskiegoembarganapolskieprodukty.pdf (accessed 20/02/2017).

⁷ See: Adam Grezeszak, "Rosjanie podchodzą pod Tarnów," *Polityka*, July 15, 2014, <http://www.polityka.pl/tygodnikpolityka/rynek/1585837,1,polsko-rosyjski-boj-o-grupe-azoty.read>; or ; Marek Rabij, "Rosyjski kapitał w Polsce? Prawie nieobecny," *Newsweek.pl*, May 5, 2014, <http://www.newsweek.pl/biznes/rosyjskie-inwestycje-w-polsce-newsweek-pl,artykuly,285428,1.html> (accessed 05/02/2017).

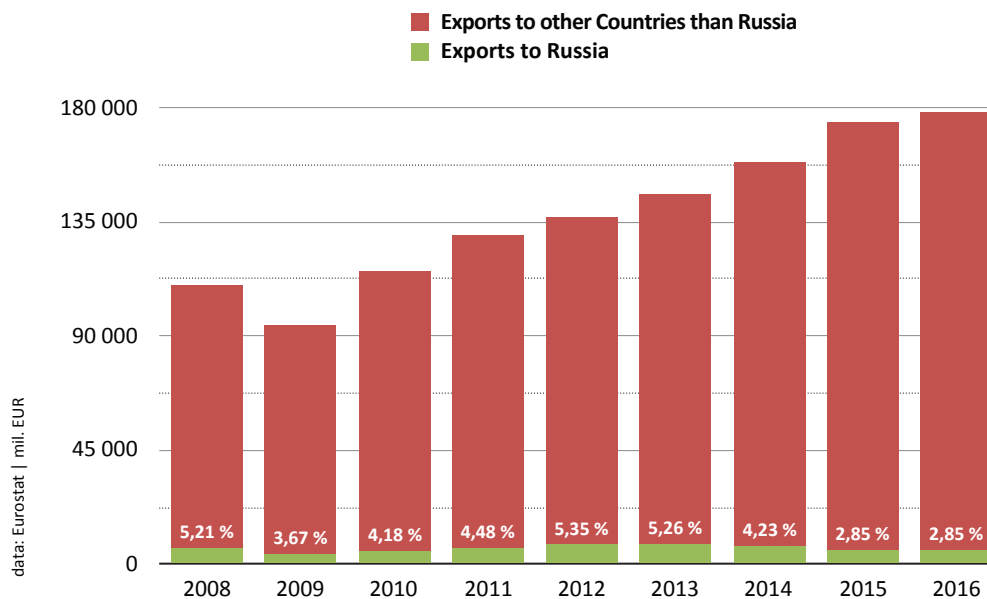
polarized Polish policy-makers broadly supported the application of the 'precautionary principle' when it came to inviting large Russian businesses into the Polish economy, especially into sectors deemed as

strategic. On the whole, neither trade (except for that of energy which deserves special attention) nor investment relations created significant political or economic vulnerabilities.

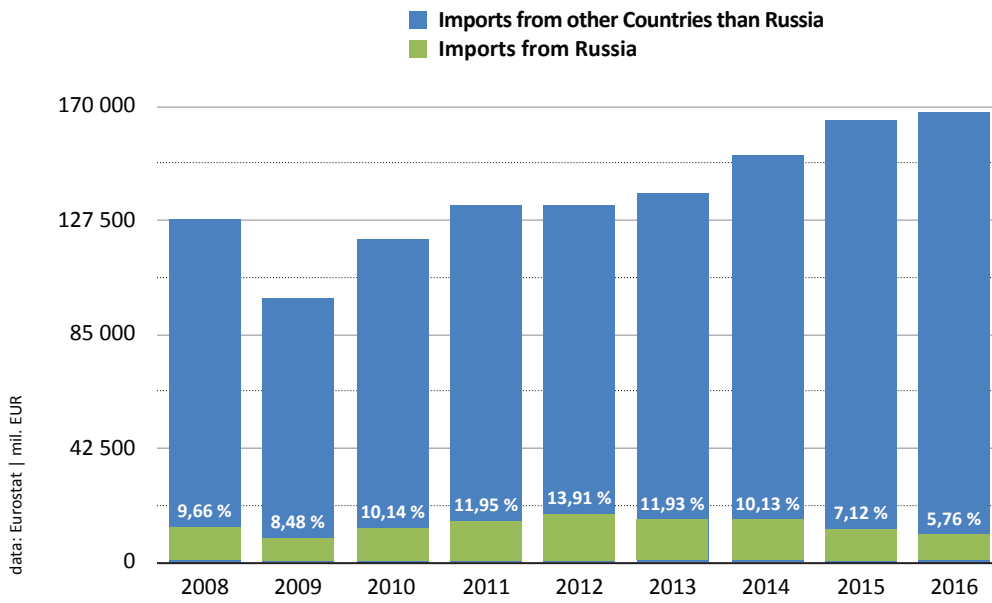
Graph 5: Polish-Russian Bilateral Trade



Graph 6: Polish Exports to Russia and Other Countries



Graph 7: Polish Imports from Russia and Other Countries



Hungary

Hungarian trade and investment dynamics with Russia show many similarities with other CEE patterns. The Russian share of roughly 3,5 % in total exports was enough to become Hungary's largest export destination outside the EU in the late 2000s. Hungarian imports from Russia are comprised almost exclusively of minerals and fuels, while other products have a negligible share. Prior to 2014, Hungarian exports to Russia increased considerably, simultaneously with trade dynamics of other European countries.⁸ Mutual investments have been statistically insignificant, with sporadic and visible Russian hostile takeover attempts in Hungary, and some dedicated projects of leading Hungarian companies in Russia.

Trade volumes had been growing intensively until the 2008–2009 crisis due to a strong Russian internal demand and booming energy prices. The Hungarian positive export performance was primarily due to the increase in machinery and transport equipment (SITC 7). Between 2000–2011, it grew 15 times in value, while its share in total exports rose from 18,6 % to 53,5 %. Machinery and other manufactured goods (SITC 6–7) comprised 73,6 % of the entire incremental growth in total exports (See the Supplement for more details). This hints at the fundamental role of local affiliates of multinational companies in Hungary's export performance. In contrast, trade in food and drink products (SITC 0+1), a sector much more dominated by domestically-owned suppliers, grew by negligible levels, a sheer 8,9 % between 2000–2011.

The years 2009 and 2014 have become two significant watersheds in Hungarian trade dynamics (Graph 8). Between 2010–2013, trade turnover rate stagnated, reflecting primarily the Russian economic slowdown and the decreasing price of oil. Since the summer of 2014, due to the imposing of sanctions and the drop in oil prices, bilateral trade has fallen by levels comparable to the proportions of EU member countries. At a statistical glance, Hungarian-Russian economic relations show little peculiarity; they hold the typical characteristics of CEE-Russia ties.

The fall in Russian demand after 2013 has hit Hungarian exports rather harshly. By 2016, total Hungarian exports to Russia fell by 44,1 % from their 2013 levels. Nonetheless, the large sum of the decrease in total exports (81,9 % of it) came from the above-mentioned two sectors, "machinery and transport equipment" and "other manufactured goods." Thus, it is reasonable to assume that the crisis has primarily affected the multinational companies and the

non-sanctioned segments (since Hungary does not produce military or energy equipment in reasonable scales). This severe impact is not comparable to the 2009 collapse – it is much deeper and has not been followed by a sharp recovery until now. Other product groups, such as food and drink or chemicals show a much more balanced picture with only moderate fallbacks and impacts of a less structural character.

The drop in exports is specific to the Russian case, since (as shown in the Graph 9) Hungarian exports in general have been growing rather dynamically. Accordingly, the Russia's share in Hungarian exports fell drastically between 2013 and 2016, from 3,12 % to 1,53 %. Russia has lost its long-time ranking as the largest non-EU export destination, and fell to the fifth position by 2016, with countries such as Ukraine and Turkey overtaking it. The drop in Russian-related trade has massively contributed to the overall decrease in Hungarian non-EU exports.

Similar trends, even with different origins, can be observed on the Hungarian import side. The drop in oil and gas prices since 2014 has reconfigured the relevance of Russia; nowadays, imports consist almost exclusively of mineral fuels (SITC 3). In 2013, they constituted 89,9 % of the total. Consequently, the drop in oil and gas prices was the single most important reason why imports decreased by 62,9 % between 2013–2016. Russia's share in Hungarian imports also fell from 8,48 % in 2013 to 2,81 % in 2016 (Graph 10).

In the longer time series, there is a specific Hungarian phenomenon observable, namely the significant decrease in Hungarian gas consumption. Gas demand has practically halved in the last decade, falling from above 12 million tons of oil in 2005 to around 7 million in 2014. All major segments of demand have been shrinking, including the industrial demand, the residential demand, and the power plants' demand. This process seems to be irreversible in its full magnitude, and the demand for gas will hardly fully recover in the foreseeable future.

Hungarian-Russian trade balance has remained passive, even if it has improved remarkably, falling from 3,9 billion euro in 2013 to below one billion euro in 2016 (Graph 8). The passive balance is natural, due to the fact that the lion's share of Hungarian energy imports originate from Russia. In terms of industrial products and high value-added production, Hungary maintains a strong active balance.

Russian FDI and corporate presence is almost invisible in Hungary. Even if we add Russian-related investment coming from Western countries, from

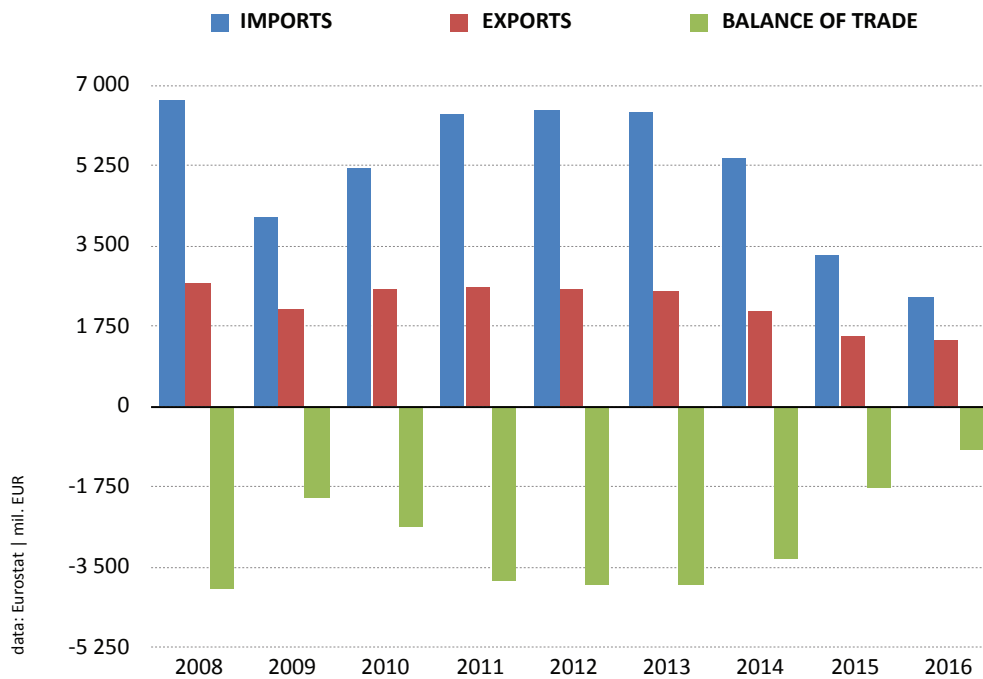
⁸ Russia's share in both total exports and imports peaked in 2008 at 3,61 % and 8,98 %, respectively.

Cyprus or investments made by Russians residing in Hungary. According to these authors' estimates published in "The Kremlin Playbook"⁹ (2014), the total turnover rate of Russian-related companies remained below 3 % of total Hungarian corporate revenues at best. These investments were predominantly made in the energy and financial spheres. There were only a handful of cases when Russian businesses invested into metallurgy, machine-building or tourism.

Hungarian FDI in Russia mainly consists of large Hungarian companies. Hungary's pharmaceutical companies, Richter and Egis maintained their Soviet roots and established solid footholds in

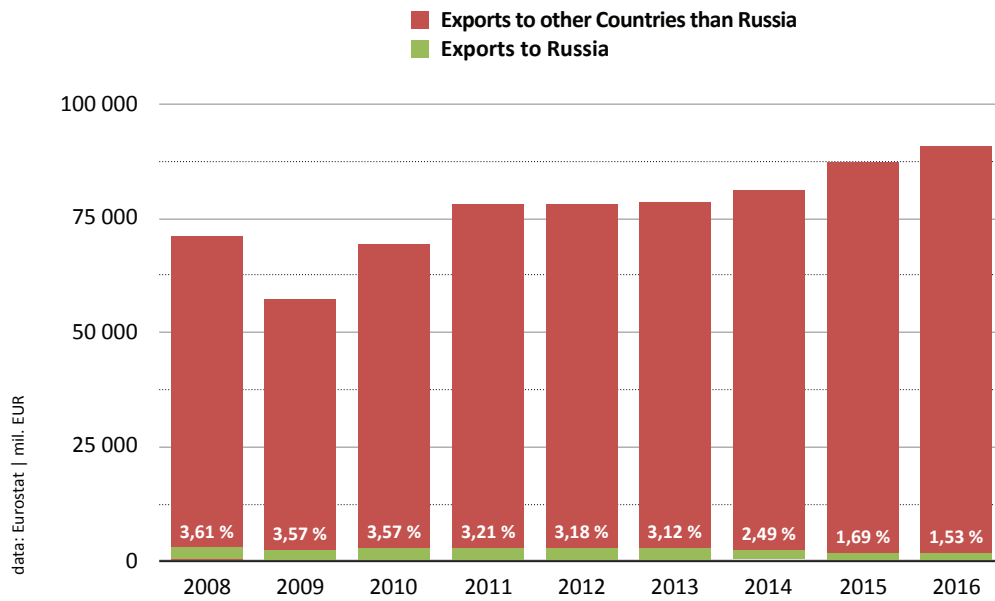
the Commonwealth of Independent States (CIS). Hungary's leading retail bank, OTP Bank, has its third and fourth largest asset-based presence in Russia and Ukraine. In 2013, the Hungarian oil and gas company Mol divested three upstream assets in Western Siberia. By the end of 2016, Mol has preserved only one upstream asset (operating in the Volga-Urals region). All these investments provide indirect evidence of high entry barriers on the Russian market. Small and medium-sized enterprises and agricultural producers have failed to establish a solid presence in Russia, and are still trying to cope with difficulties stemming from a smaller scale of economies.

Graph 8: Hungarian-Russian Bilateral Trade

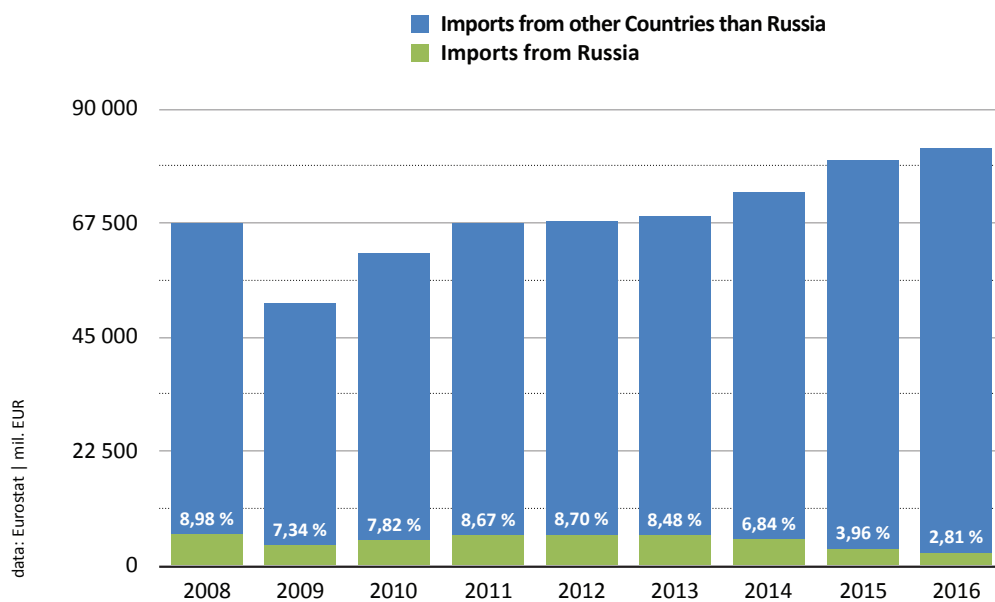


⁹ Heather A. Conley et al. "The Kremlin Playbook – Understanding Russian Influence in Central and Eastern Europe." *Centre for strategic and international studies*, https://csis-prod.s3.amazonaws.com/s3fs-public/publication/1601017_Conley_KremlinPlaybook_Web.pdf (accessed 14/01/2017).

Graph 9: Hungarian Exports to Russia and Other Countries



Graph 10: Hungarian Imports from Russia and Other Countries



Slovakia

Since the Russian aggression in Ukraine in 2014, and the imposing of sanctions against Russia (and counter-sanctions against the EU), many Slovak political elites, led by the Prime Minister Robert Fico, have been stressing the importance of material linkages between Slovakia and Russia.¹⁰ Bilateral economic cooperation is primarily defined by the purchase and transit of energy resources. Due to the lack of sufficient mineral reserves, Slovakia is largely dependent on such imports from Russia. The main commodities imported are natural gas, oil, nuclear fuel, hard coal, and iron ore.¹¹ Moreover, Slovakia is a strategic transit territory through which important pipelines for transporting Russian gas and oil are built and regulated for the delivery of supplies to Russia's Western consumers through connections in the Czech Republic and Austria. Slovakia's goal is to maintain its position as a transit country.

From the 2016 data of Eurostat, the top three export partners for Slovakia are Germany, the Czech Republic, and Poland. Slovakia's import partners consist of Germany, the Czech Republic, and Austria. Moreover, it is important to highlight that 85,2 % of Slovakia's export goes to the EU countries. Slovakian exports to Russia mostly consist of cars, electric machinery and equipment, printing products and stationery, and finally medications and consumables. The Russian Federation has been the most significant trade partner outside of the EU for Slovakia. As can be seen on the Graph 11, as Slovak exports to Russia had been gradually increasing up until 2013, so too did Russian imports to Slovakia. However, the share of exports to Russia as compared to total Slovak export was decreasing even before the sanctions were imposed (Graph 12). The share of imports from the Russian Federation to Slovakia was around 10 % of total imports before the restrictive measures. Once those were imposed, the share dropped by nearly half (Graph 13), and it still continues to fall.

Since 2014, the decrease in Slovak exports to the Russian Federation was significant. Comparisons of the data from 2013 and 2016 suggest that the export losses to Russia accounted for 40,2 %, and the import to Slovakia decreased by 43,4 %. According to Eurostat,

the share of the total Slovak export outside the EU to Russia was 23,2 % in 2013. However, this share decreased to 15,5 % as noted in 2015. Thus, the export share to Russia in relation to total exports outside the EU dropped by 7,7 %. The EU average in this respect was – 2,8 %. Overall, Slovakia was the country most influenced by sanctions against Russia within the V4, and the fourth most influenced country within the EU, when examining the decrease in export shares to Russia relative to the total exports outside the EU.

Graphs 14 and 15 illustrate the exports to Russia and the imports to Slovakia according to the Standard International Trade Classification (SITC) categories¹² in years 2013 and 2016. Observing the change, it is apparent that the most affected categories were the food and live animals (SITC 0), in consequence of the counter-sanctions, mineral fuels (SITC 3) and machinery and transport equipment (SITC 7). However, it is also important to acknowledge the nominal value of exports that have been influenced the most. Here we can see that other categories than SITC 7 contribute quite minimally in terms of the nominal value of exports to Russia. Thus, even a considerable decrease due to the sanctions would not critically affect the overall trade. On the other hand, SITC 7 has by far the largest volume in terms of trade with Russia (and the total of Slovak exports). The export of machinery and transport equipment decreased by 45,3 % after imposing the restrictive measures. This change seems quite significant, at least at first sight.¹³

When it comes to regional cooperation in business, there are a few examples. The second largest city in Slovakia, Košice, is currently cooperating with its Russian counterpart Saint Petersburg; Žilina has business ties with the city Krasnoyarsk; and the Prešov region (the most populous and second largest of Slovakian regions) conducts deals with Volgograd. Russian companies are mostly interested in establishing business partnerships in engineering, the chemical industry, and energy.¹⁴ In the banking sector, the most prominent example of outsourcing was the Russian bank Sberbank. The Slovak branch merged with Prima Banka owned by the financial group PENTA in August 2017.¹⁵

¹⁰ Igor Stupňa, "Fico: Spolupráca EÚ a Ruskaj je nevyhnutná," *Pravda*, June 16, 2016, <https://spravy.pravda.sk/domace/clanok/396277-fico-spolupraca-eu-a-ruska-je-nevyhnutna/> (accessed 09/01/2017).

¹¹ "Rusko-Slovenské vzťahy," *Official website of the Embassy of the Russian Federation to the Slovak Republic*. <https://slovakia.mid.ru/web/svk/9> (accessed 01/09/2017).

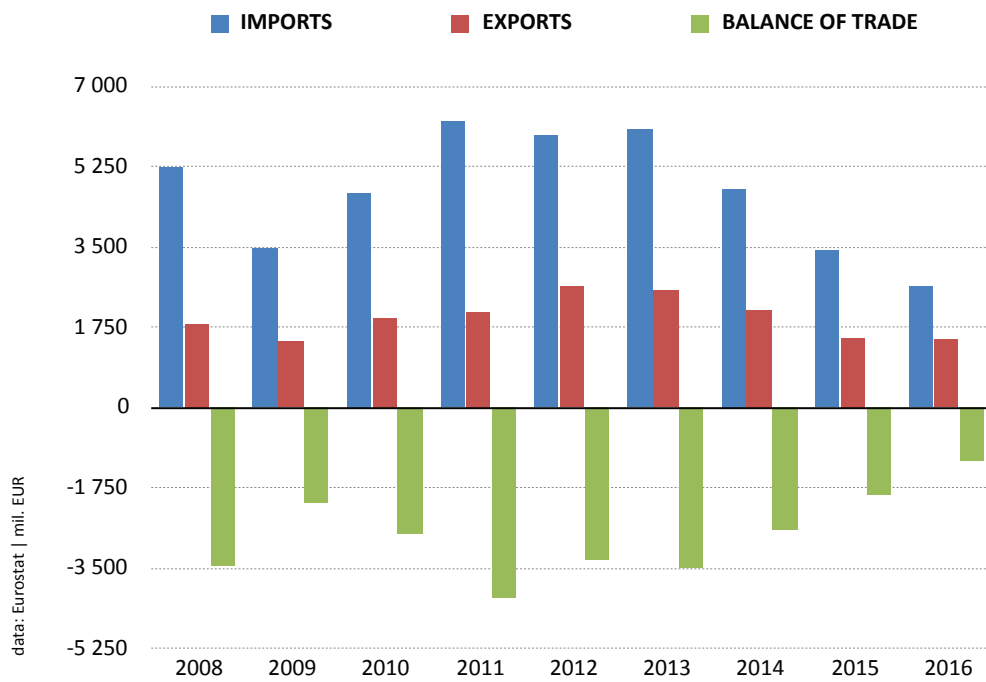
¹² See the Supplement for the SITC classification overview.

¹³ *Slovak Statistical Office*, http://statdat.statistics.sk/cognosext/cgi-bin/cognos.cgi?b_action=xts.run&m=portal/cc.xts&gohome= (accessed 15.9.2017)

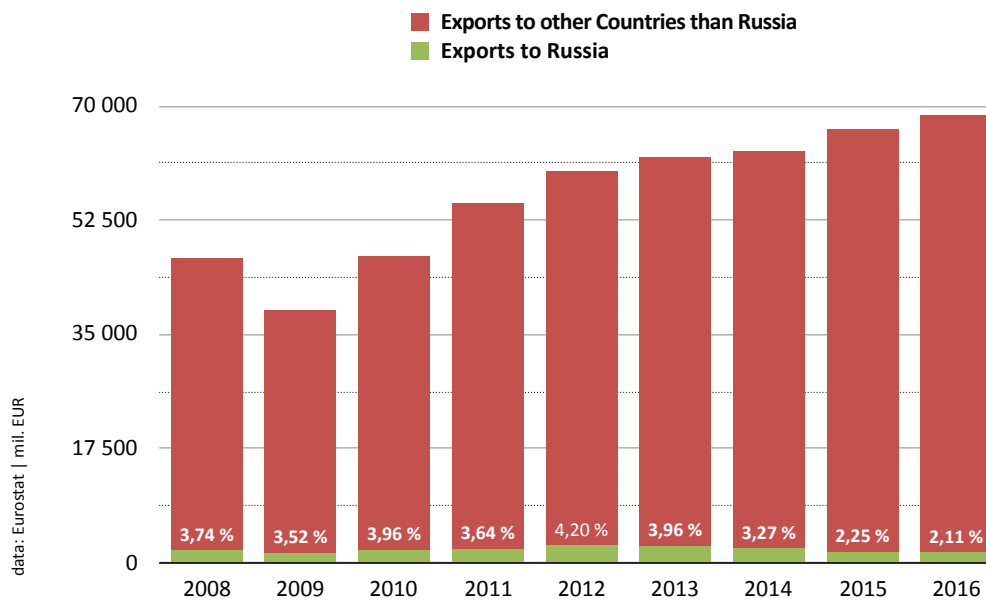
¹⁴ "Slovensko-ruský obchod klesol o tretinu, regióny hľadajú nové formy spolupráce," *Denník Postoj*, June 8, 2016, <https://www.postoj.sk/14446/slovensko-ruský-obchod-klesol-o-tretinu-regiony-hladaju-nove-formy-spoluprace> (accessed 12/09/2017).

¹⁵ "Sberbank definitely leaves Slovakia," *The Slovak Spectator*, August 1, 2017, <https://spectator.sme.sk/c/20616751/sberbank-definitely-leaves-slovakia.html> (accessed 15/09/2017).

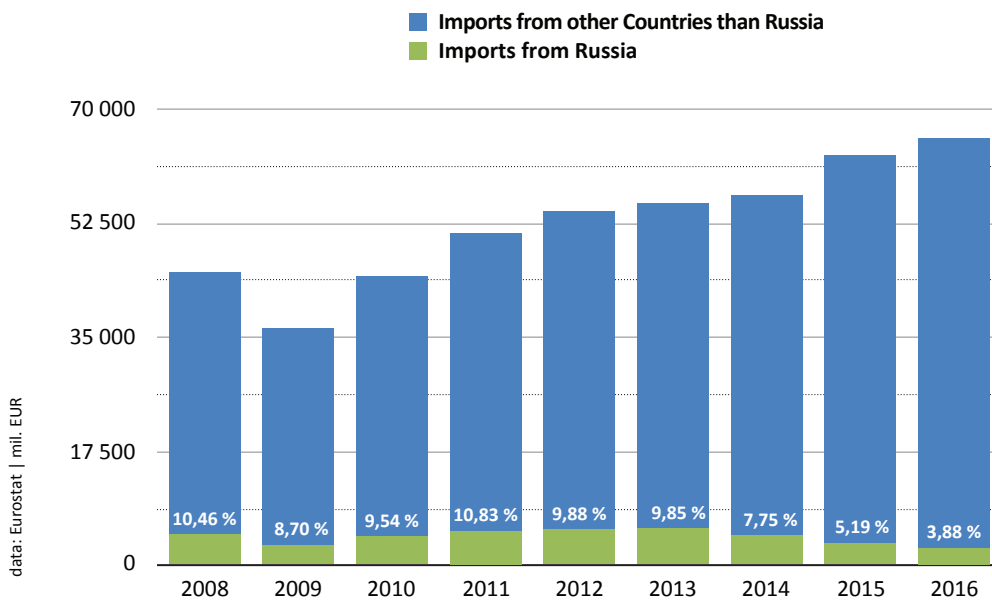
Graph 11: Slovak-Russian Bilateral Trade



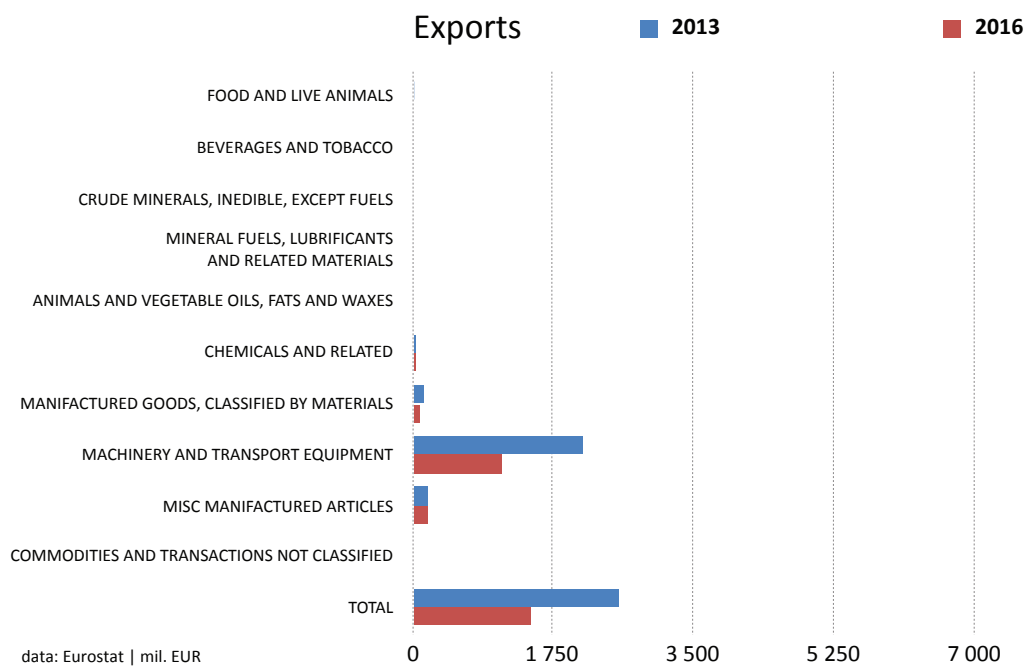
Graph 12: Slovak Exports to Russia and Other Countries



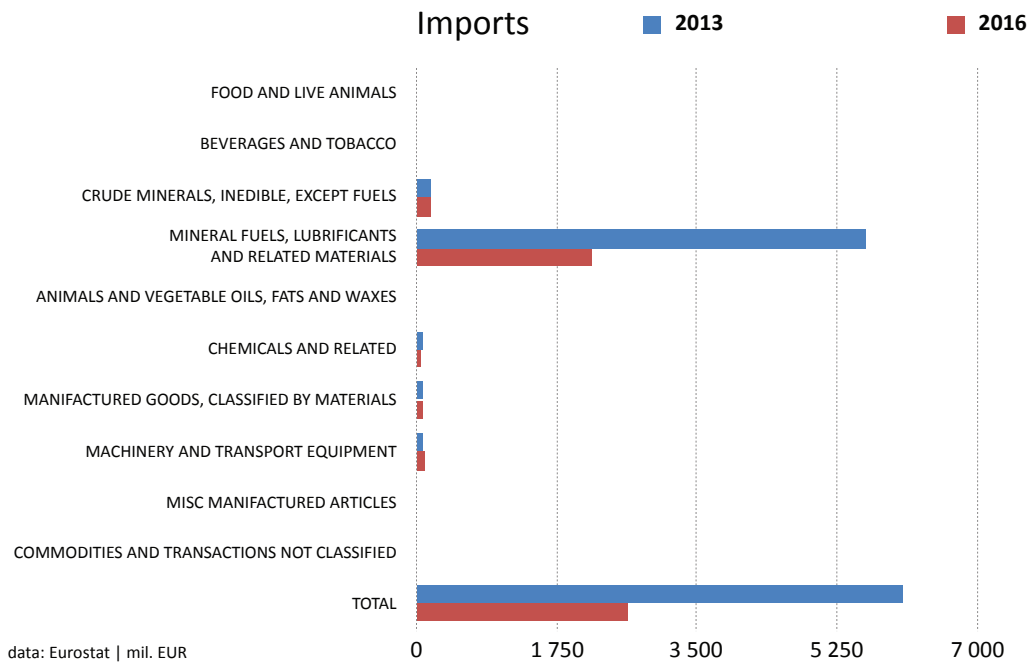
Graph 13: Slovak Imports from Russia and Other Countries



Graph 14: Slovak-Russian Exports in SITC



Graph 15: Slovak-Russian Imports in SITC



IMPACTS OF THE RUSSIA SANCTIONS AND COUNTER-SANCTIONS AND THE POLITICAL DEBATE OVER THEM

Czech Republic

When examining the effect of sanctions on the Czech economy, one observation cannot go unnoticed: the striking imbalance between their anticipated and real impacts. Sanctions imposed by the EU and the subsequent Russian counter-sanctions initially raised concerns not only among some government officials, but also among select members of the business community. The efficacy of the sanctions was, for example, questioned by the President of the Senate of the Parliament, Milan Štěch, as well as the current Czech President, Miloš Zeman. The primary argument was that these actions would hurt the Czech economy and negatively influence Czech citizens, and might even lead the economy back into a recession.¹⁶ In addition, business representatives, with significant exposure to the Russian market, have, on multiple occasions, expressed their discontent about possible profit losses and the difficulties presented by the need to find new markets.¹⁷ The most visibly prominent actors with a considerable presence in Russia include: Škoda, a major Czech car producer; Hamé, a food processing company; or financial group PPF that operates on a wide spectrum of market segments.¹⁸ Thus, a selected number of actors raised their doubts whether benefits of these restrictive measures will outweigh potential costs.

According to the official government document assessing the impacts of the EU-related sanctions (August, 2014), it was estimated that the EU sanctions could inflict direct losses worth 81,4 million euro and threaten some 700 jobs. Russian counter-sanctions, on the other hand, were presumably endangering sales worth 11,1 million euro and 130 jobs until the end of 2014.¹⁹ Moreover, representatives of the trade unions warned against the possible inaccuracy of

these numbers, and insisted that the sanctions could be much more disastrous in the long-term.

Nevertheless, the real impact of the sanctions on the Czech economy remains well below the alarming estimates.²⁰ The sharp decline in bilateral trade between Russia and the Czech Republic was hardly noticed in terms of the overall economic state. Instead, it was the fall of the rouble, accompanied by other structural difficulties confronting the Russian economy that contributed considerably to the drop in trade figures.²¹ The sanctions regime created an atmosphere of uncertainty because it was not known whether these trade restrictions would continue. But, due to the structure of Czech exports to Russia, and together with governmental initiatives designed to support affected exporters, the real impact was rather limited.

Since machinery tools represent the majority of Czech exports to Russia, sanctions caused significant concerns among industrialists in this particular sector, since it remained unclear which machinery products would be specified under the sanctioned category of dual-use goods. Czech officials, however, managed to negotiate an amendment proposing that the sanctions would not apply to certain types of machine-based tools, and thus significantly limited the sanctions' negative effects.²² Other items subjected to the EU's sanctions, such as artillery or advanced mining technologies, composed only marginal shares within Czech exports to Russia.²³ As a result, after the initial wave of fearful reactions, it turned out that only a small segment of the Czech industrial export base was directly affected by the sanctions regime.

As for agricultural exports, of which less than 2 % end up in Russia, counter-sanctions have so far not

¹⁶ Václav Trejbal, "Vliv rusko-ukrajinského konfliktu na ekonomické vztahy visegrádských zemí a Ruska," *Scientia et Societas* 12 (3): 35–60.

¹⁷ "Hamé bude žádat kompenzaci za ztráty v Rusku. Čeká škodu až sto milionů," *iDnes.cz*, August 7, 2014, http://ekonomika.idnes.cz/sankce-vuci-rusku-a-dopad-na-ceske-vyrobce-fgf-/ekonomika.aspx?c=A140807_132434_ekonomika_spi (accessed 01/05/2017).

¹⁸ Václav Trejbal, "Vliv rusko-ukrajinského konfliktu na ekonomické vztahy visegrádských zemí a Ruska.," Petr Kratochvíl et. al, "Ukrajinská krize: Dopady a rizika pro Českou republiku," *Institute of International Relations Prague* (Discussion Paper), March–April 2014, <http://www.dokumenty-iir.cz/DiscussionPapers/Ukrajina.pdf> (accessed 01/05/2017).

¹⁹ Věra Masopustová, et al. "Kvůli sankcím EU a Ruska a jejich dopadu na české firmy jedná vládní pracovní skupina," *iRozhlas*, August 18, 2014, http://m.rozhlas.cz/zpravy/politika/_zprava/kvuli-sankcim-eu-a-ruska-a-jejich-dopadu-na-ceske-firmy-jedna-vladni-pracovni-skupina--1385794 (accessed 01/05/2017).

²⁰ Zuzana Švejdvová, "České firmy nedostanou kompenzace za ruské sankce. Výjimkou jsou zemědělci," *iRozhlas*, January 20, 2015, http://www.rozhlas.cz/zpravy/domaciekonomika/_zprava/ceske-firmy-nedostanou-kompenzace-za-ruske-sankce-vyjimkou-jsou-zemedelci--1445924 (accessed 08/01/2017).

²¹ Václav Špícar, "Putin to nechce, pošleme to jinam," *Euro*, August 25, 2014, http://www.euro.cz/archiv/putin-to-nechce-posleme-to-jinam-1112316#utm_medium=selfpromo&utm_source=euro&utm_campaign=copylink (accessed 08/01/2017).

²² "Radek Špícar: Některé firmy se bez ruského trhu zkrátka neobejdou," *Euroactiv*, February 20, 2015, <http://euroactiv.cz/rozhovory/obchod-a-export/radek-spicar-nektere-firmy-se-bez-ruskeho-trhu-zkratka-neobejdou-012477/#sthash.XBYNbKzq.dpuf> (accessed 08/01/2017).

²³ Václav Trejbal, "Vliv rusko-ukrajinského konfliktu na ekonomické vztahy visegrádských zemí a Ruska."

been relevant to major Czech export commodities, namely beer or confectionery. Thus, the value of agricultural exports to Russia actually rose during the second half of 2014, a period immediately following the imposition of Russian counter-sanctions.²⁴ The only significant segment directly affected by the Russian embargo within the agricultural sector has been the milk industry. Losses in this sector were estimated to reach up to 7,4 million euro. However, such negative effects have been partially avoided thanks to support of the national authorities and EU incentives. The Czech government, for example, started to purchase dried milk for its material reserves and worked closely with canteens and food stores in order to boost consumption of agricultural products.

Another factor reducing the negative effect of sanctions was the localization of production on the Russian market. As trade restrictions only applied to cross-border trade, some companies decided to move their production to Russia. One such case was the food processing company Hame, which now operates a manufacturing plant in Bogolyubovo since 2004. Despite the company's concerns in the initial phase of counter-sanctions, already in 2015 Hame officials noted that it had not experienced any significant profit losses, and that it had even extended its Russian-based production.²⁵ A similar strategy was conducted by car producer Skoda with factories in Kaluga and Nizhny Novgorod, among others.

One of the ways in which companies minimized losses was also the reorientation of goods towards other markets. To give one example, the Czech dairy producer, Madeta repackaged its cheese products and sold them on the domestic market; the financial company PPF Group made an active effort to diversify its portfolio. Even though the company's net profits dropped by 10 % in 2015 due to troubles stemming from the Russian market, sanctions have not been the main reason behind this drop. The annual budget has remained in positive figures thanks to investment activities in China, and its overall profit has been constantly growing.²⁶ Thus, business entities

undertook adjustment strategies in order to limit potential losses.

The imposing of sanctions on Russia has also had indirect implications that are not widely known. The previous three years have given Russia an impetus to undertake and accelerate long-discussed reforms concerning the Russian industrial base. These efforts are aimed at supporting the localisation of production and on reducing reliance on imports.²⁷ This may lead to a new phase in the Czech-Russian mutual trade relations. Companies oriented towards the Russian market will either have to establish a business presence in the country, or reduce its exposure. It is therefore reasonable to expect that in such an uncertain environment, and in light of the ongoing sanctions, new economic linkages will be limited.

Poland

Restrictions imposed in 2014 on the import of agricultural and other food products from the EU by Russia were not merely a retaliatory measure taken in the aftermath of the EU sanctions, they were primarily an attempt to raise the political cost of the sanctions by targeting an influential interest group. Poland was highlighted as one of the major targets of such counter-sanctions. Revoked access to a key sales market was meant to lead to enormous losses and prompt Polish farmers to exert pressure on political elites prior to elections, be it local (November 2014), presidential (May 2015) or parliamentary (October 2015).

It is sufficient to review the statistics for 2013–2015 in order to assess the real damage sustained to the agricultural market by these restrictions. In 2013, Polish producers sold agri-food in the value of 20,4 billion euro abroad which constituted 71 % of total exports. Of this share, sales to Russia amounted to 1,25 billion euro. Food exports to Russia had dropped by 30 % to 880 million euro as a result of sanctions a year later whereas the total value of foodstuffs exports had increased by 7,1 % rising to 21,9 billion euro. An upward trajectory was also observable in 2015, when the value of food sold abroad increased by 7,7 % rising to 22,9 billion euro (18,8 billion euro worth

²⁴ "Agrární vývoz do Ruska loni navzdory sankcí rostl," *Zemědělský svaz České republiky*, <http://www.zscr.cz/clanek/agrarni-vyvoz-do-ruska-loni-navzdory-embargu-rostl-1019>

²⁵ Kateřina Vokurková, "Hamé už netrápí ruské sankce, hlásí úspěšné pololetí," *Atualne.cz*, August 27, 2014, <https://zpravy.aktualne.cz/ekonomika/hame-hlasi-uspesne-pololeti-sankce-nezbrzdi-ani-cely-rok/r~f82642a42dd211e4807c002590604f2e/?redirected=1484913645> (accessed 23/06/2017).

²⁶ "Kellnerova PPF se pochlubila výroční zprávou a úspěšným rokem," *Echo24.cz*, August 18, 2016, <http://echo24.cz/a/iMYkr/kellnerova-ppf-se-pochlubila-vyrocn-zpravou-a-uspesnym-rokem> (accessed 23/06/2017).

²⁷ "Materiál „Hodnocení dopadů sankcí v rámci ukrajinské krize.“

of foodstuffs were sold to the EU), which happened despite plummeting sales to Russia in the value of 398 million euro (a drop of 55 % in 2014). The value of Polish exports rose in 2016 by 1,2 % whereas sales to Russia fell again by 5,5 % to 320 million euro. The share of the Eastern neighbor in revenue from the export of agri-food products fell to 1,3 %. According to the ranking of recipient countries, Russia slipped from 14th to 16th place in 2016. It is noteworthy that Polish exports to Belarus after three years of decline grew in 2016 from 223 million euro to 321 million euro²⁸. In conclusion, the Polish agri-food sector managed to successfully offset losses brought on by Russian sanctions not only due to a greater presence in the EU, but also in other markets.

However, one should not dismiss the losses incurred by certain sectors and producers largely dependent on Russian consumers. Poland recorded a drop in the volume and value of fruit exports (by 12 % and 2 % respectively) in 2015,²⁹ for example. Apple exports suffered in particular (a fall of 19 % both in volume and value). A drop in revenues from sales of dairy products (a fall of 15 %)³⁰ was accompanied by a slight increase in volume, which indicates not only did the impact of the embargo, but also unfavorable economic conditions. Restrictions introduced by Russia therefore did hit certain quarters of the agri-food sector. Still, the damage was minimal compared to both the intentions behind them and the expert forecasts, which had it that significant losses were afoot.

The sanctions serve to invalidate a long-held hypothesis: that the fate of Polish food producers largely depended on the Russian market. The sanctions have naturally hampered the activities of numerous Polish companies. Some businesses – especially those with a lack of diversified sales markets – have not coped well with the challenge. They have failed to redirect the export of apples, pears, pork and cheese to other markets. However, EU compensation, governmental support provided to businesses searching for customers in East Asia, the Middle East and North Africa, as well as the adjustment of export strategies to unfavorable political and market conditions (which is of the utmost importance) have enabled not just the

survival of, but namely an increase in positive export dynamics by Polish businesses.

Assumptions behind Russian counter-sanctions proved to be wrong, and the policy derived from them brought about results which were not intended. The Polish agri-food sector coped quite well with the embargo and hence, demands to change policies regarding Russia have so far not entered the mainstream agenda in Poland. The trade restrictions imposed by Russia were not the first during the last decade, and they have merely strengthened various Polish entrepreneurs' conviction concerning the necessity to diversify exports, given the high-risk related to the excessive dependence on the unstable Russian market. Aside from that, Russian counter-sanctions have prompted greater activity in non-EU markets.

Although restrictions have brought about serious losses for some Polish producers, they have also induced measures of adjustment. If further developed, these measures will have long-term positive effects. A state with a differentiated export profile and a diversified sales market is less susceptible to troubled relations with an unpredictable partner.

To conclude, the Polish economy has been only slightly affected by EU sanctions against Russia and Russian counter-sanctions. Other factors have determined the dynamics of foreign trade and economic relations. Polish losses due to reciprocal restrictions can largely be attributed to sectors, or even producers, whose composition of trade partners was insufficiently diversified, preventing them from switching to other markets quickly. Nevertheless, Polish exporters did undertake effective measures aimed at adaptation in the majority of cases.

Hungary

The introduction of sanctions in 2014 was politically unwelcome in Hungary. The government opposed the sanction regime as it wanted to keep the security challenge on the political level only. Budapest increasingly strived for opening up new Eastern trade opportunities since 2012. Thus the Ukrainian crisis ushered in a period of a major trouble in the bilateral relations with Russia. It put the Hungarian government in an uncomfortable situation: it had already engaged with Russia on several matters

²⁸ "Yearbook of Foreign Trade Statistics 2016," *Central Statistical Office of Poland*, October 24, 2016, <https://stat.gov.pl/en/topics/statistical-yearbooks/statistical-yearbooks/yearbook-of-foreign-trade-statistics-2016,9,10.html> (accessed 30/04/2017).

²⁹ *Ibid.*

³⁰ *Ibid.*

such as energy, while the international security and political environment considerably limited these ambitions, and forced the foreign policy to launch its seesaw manoeuvring.

Despite this generally negative attitude towards sanctions, Hungary could hardly identify any particular sectors where its economic interests would have been hit directly by the sanctions. Negative consequences have mainly been felt as a result of the overall impact on the Russian economy – the fall in demand and the exchange rate volatility – rather than through the export of a specific product, or service bans. Much of the rhetoric surrounding the negative impacts of the sanctions regime refers to the Russian agricultural counter-sanctions, where producers have indeed suffered losses, even if these are minuscule compared to decreases in other sectors.

It is difficult to give an estimate for the full impact of sanctions on exports. Due to complex multinational value chains and the deep integration of Hungarian assembly lines into the European production processes, Hungarian producers often contributed to end products, which were then re-exported to Russia from other countries. Re-exports were also pivotal in the food and agricultural industries. Thus, it is reasonable to assume that the total decline was considerably larger than those suggested by the bilateral trade statistics. Nonetheless, even accounting for this potentially broader impact, there would hardly be any loss of impetus in the overall Hungarian export dynamics to be seen between 2013–15. Total exports grew by 11,3 % in those two years, even if extra-EU exports slightly fell by 7,7 %.

It is also impossible to assess the specific impacts of numerous factors on export dynamics. The direct consequences of the sanctions and the Russian agricultural counter-sanctions in particular were certainly not the main factors from the macroeconomic point of view. Products related to investments, durable goods, and those that could be substituted domestically, suffered the biggest setbacks. This could be the result of the exchange

rate and aggregate demand effects, rather than the potential implications of administrative export bans. Furthermore, adaptation to the new situation and the redirection of exports to other markets were relatively successful in some cases. To give an example, in the case of pharmaceuticals the new production lines were utilized despite the heavy losses on the Russian market.³¹ Hence, sanctions as such could hardly have a large impact, especially when combined with adjustments from the business side.

According to the Austrian Institute for Economic Research, sanctions were responsible for 40 % of the total trade losses in EU28 for the period of 2014–15. In their model, Hungary lost 562,5 million euro in 2015 due to the overall effect of all composite elements of the sanctions. This is much less than in the Czech Republic (1211,2 million euro) or Poland (1727,8 million euro).³² All these numbers suggest that Hungary has coped with the sanctions marginally better than its Visegrad partners. The implications of the sanctions are even weaker in the Hungarian investment field.

The situation and these calculations are in sharp contrast with the government's rhetoric. The sanctions have been criticized from their onset and characterized as useless and/or harmful by the Hungarian cabinet. Prime Minister Viktor Orbán publicly advocated the separation of politics from the economy, and called for the abolition of the sanctions regime.³³ Simultaneously, the government estimated that agriculture would suffer an annual 80 million euro loss incurred by the sanctions.³⁴ In January, 2017, Foreign Minister Péter Szijjártó estimated the Hungarian losses from mutual sanctions at 6,5 billion dollars in the last three years.³⁵ By mid-2017, the government declared its opposition to the sanction regime, but expressed its reluctance to veto their prolongation alone in the Council. For this reason, there is asymmetry between the proclamations and actual data.

The issue of sanctions is not the primary topic on the political landscape. The Russia-friendly radical right-wing party Jobbik, naturally opposes even the political condemnation of Russia. It recognizes the Crimean referendum and the annexation of Crimea,

³¹ "Jelentés a külkereskedelem teljesítményéről," *Central Bureau for Statistics*, July 2016, <https://www.ksh.hu/docs/hun/xftp/idoszaki/kulker/kulker15.pdf> (accessed 22/01/2017).

³² Elisabeth Christen et al. "Auswirkungen der Wirtschaftssanktionen der EU und Russlands auf Wertschöpfung und Beschäftigung in Österreich und der EU," *WIFO*, December 2016, <http://www.wifo.ac.at/www/pubid/59227> (accessed 25/02/2017).

³³ Gergely Szakacs, "Europe 'shot itself in foot' with Russia sanctions: Hungary PM," *Reuters*, August 14, 2014, <http://www.reuters.com/article/us-ukraine-crisis-sanctions-hungary-idUSKBN0GF0ES20140815> (accessed 25/11/2016).

³⁴ "Hungarian PM: EU sanctions more damaging to the West," *Deutsche Welle*, August 15, 2014, <http://www.dw.com/en/hungarian-pm-eu-sanctions-more-damaging-to-the-west/a-17857444> (accessed 25/01/2016).

³⁵ "Венгрия потеряла 6,5 миллиарда долларов из-за антироссийских санкций," *RIA Novosti*, January 24, 2016, <https://ria.ru/economy/20170124/1486323337.html> (accessed 25/01/2016).

and ignores the Russian activity in the Eastern Ukraine conflict. The left-wing opposition parties offer a broad range of criticism towards Russia, and support the sanction regime with varying intensity.

Slovakia

In the past couple of years, while always maintaining the EU unity, Slovakia has been adopting a pragmatic approach towards Russia. The renewal of relations with Russia, primarily based on a mutually beneficial economic cooperation, was one of the main priorities of Slovak Prime Minister Robert Fico's governments (2006–2010, 2012–2016, 2016–present). At the same time, Fico presented himself as a pro-European leader. It is this capacity to maintain a balanced, multi-layered relationship with various partners that has been labelled as Fico's "multivectoralism" by Juraj Marušiak.³⁶ After the Russian aggression against the Ukraine and the consequent implementation of sanctions against Russia by the EU, the dual-track policy of the Slovak government has not changed dramatically. Fico continued being what Mark Leonard and Nicu Popescu call a "friendly pragmatist," and kept good relations with both sides.

In line with this approach, Slovakia's main foreign policy goal in Russia has been to avoid confrontation and to maintain close relations. Consequently, stressing the importance of material linkages between Slovakia and Russia has become the main justification for the strong critique of the sanctions that were enacted. The terms "suicidal" and "useless" have regularly been used by Prime Minister Fico. Yet, such claims have not proven to be substantiated.

Even though the sanctions (combined with the economic crisis in Russia) had a largely negative impact on bilateral trade between Slovakia and Russia, they did not have an enormous effect on the Slovak economy as such. Slovak exports continued to grow, and so did its gross domestic product. Even exports in the crucial category of machinery tools and transport equipments (SITC 7) increased – mainly because the producers could compensate for the loss of the Russian market by selling their products to other EU member states. One example is the car

production of Kia Motors Slovakia. Kia's exports to Russia declined by half to 7 % in the first quarter of 2016 in comparison with 2015. However, this "loss" was compensated by exporting vehicles to other European countries. Kia is currently shipping 15 % of its production to the Great Britain, 9 % to Germany, and there are talks in place with multiple countries in South Europe.³⁷

A plausible explanation for the above mentioned criticisms of sanctions against Russia is the intention to bolster domestic support for the Slovakian Prime Minister by targeting such rhetoric at the domestic audience. This approach was crucial for Fico before the General election in March 2016. But even after that, his criticisms of the sanctions continued as can be seen during the Bratislava Summit in September, 2016. This was done partly in response to public grievances, but he also hoped that in exchange, Russia would support Miroslav Lajcak, at that time the candidate for the UN Secretary General. But there is yet another possible explanation. Being "Putin-friendly" may guarantee an advantageous contract with Gazprom, and cheap gas is important for Fico's "social" policies. It also enables him to lobby Moscow for securing Slovakia's position as a strategic gas transit country.

Nonetheless, despite the rhetoric that Fico adopted when speaking of sanctions, his government has so far approved all of the EU's restrictive measures against Russia and promised to always support the EU's unitary position.³⁸ Moreover, Fico's government has been stressing the importance of Slovakia's involvement in helping Ukraine. Whether it was by a reverse flow of gas, humanitarian and development aid, or the transfer of political experience,³⁹ for the current government it is desirable to support the democratic change in the Eastern Partnership countries and to lead them to European integration. However, these attempts are clashing with a pragmatic cooperation with Russia. As Dalibor Roháč puts it, Slovakia "has been trying to have it both ways, giving a lukewarm approval to the EU's consensus position on sanctions, and then complaining about it bitterly at home, and in Moscow."⁴⁰

³⁶ Juraj Marušiak, "Slovakia's Eastern Policy – from the Trojan Horse of Russia to Eastern Multivectoralism," *International Issues & Slovak Foreign Policy Affairs* (21): 2013.

³⁷ "Export Kia Motors Slovakia do Ruska klesol v 1. polroku o polovicu," *TASR*, July 29, 2016, <http://www.teraz.sk/ekonomika/export-kia-motors-slovakia-do-ruska-kles/209287-clanok.html> (accessed 08/05/2017).

³⁸ "Fico na samite EÚ označil sankcie voči Rusku za nezmyselné a nefunkčné," *TA3* <http://www.ta3.com/clanok/1093001/sankcie-voci-rusku-su-nezmyselne-a-nefunguju-povedal-fico-na-summite-unie.html> (accessed 08/05/2017).

³⁹ Alexander Duleba, "Slovakia: Ambiguity in Action," in *Action in A Region Disunited? Central European Responses to the Russia-Ukraine Crisis* (Europe Policy Paper, 2015).

⁴⁰ Dalibor Roháč, "Putin's best EU friends," *Politico*, June 16, 2015, <http://www.politico.eu/article/putin-friends-renzi-tsipras/> (accessed 15/02/2017).

INSTITUTIONAL MECHANISMS FOR THE PROMOTION OF TRADE WITH RUSSIA – BEFORE AND AFTER UKRAINE

Czech Republic

Taking advantage of favourable trade dynamics, new platforms for cooperation had been established since 2004. Among the most common institutional mechanisms designed for the development of foreign trade is the Chamber of Commerce, the Czech export bank (CEB), the Export Guarantee and Insurance Corporation (EGAP) or the agency CzechTrade. In the case of EGAP and CEB, projects in Russia represent roughly 30 % of their portfolio and therefore receive a disproportionate attention. In the past couple of years, several of their projects in Russia have incurred losses and caused severe financial problems for both companies. Specific actors, however, exist to support trade linkages with Russia. These include the Czech-Russian Intergovernmental Commission on Economic, Industrial, Scientific, and Technical Cooperation, and two chambers created by private entrepreneurs – the Chamber of Trade and Industry for CIS countries, and the Russian-Czech Mixed Chamber of Trade. To some extent the crisis in Ukraine and worsening relations between the EU and Russia affected the work of these institutions.

The Czech-Russian Intergovernmental Commission was created in 2005 and brings together leading politicians, civil servants, regional actors, industrialists and other business and commerce representatives that cover specific projects, and map out both medium and long term economic plans. Being sometimes described as a key body responsible for 'oiling' economic ties, it may occasionally make strategic decisions, especially at a time when relations at the political-diplomatic level may be strained. On a bilateral level, a similar platform exists for a number of countries, including the US and the most prominent EU member states. Composed of specialized working groups that focus on specific areas and meet on a regular basis throughout the year, the commission convened on a yearly basis until 2012.

In November 2013, as the former Ukrainian President Yanukovich declined to sign the EU Association Agreement, the commission was meant to convene its planned session, however, it was postponed until March 2014 at the last minute. After the annexation of Crimea it was informally agreed among the EU member countries that no regular intergovernmental meetings with Russian

representatives shall take place. The meeting was once again postponed, and another possible date was planned for March 2015. But different parts of the government appeared to have conflicting priorities, which demonstrated a certain lack of coherence when it came to adhering to the EU's informal agreements. While the former Minister for Industry and Trade, Jan Mládek, who is the commission's gestor, was in favour of the meeting in light of a number of unresolved issues pending, the Ministry of Foreign Affairs found the planned timing inappropriate.

Regardless of the informal agreement, after a three year break the intergovernmental commission convened in March 2016 and again in May 2017. The Czech MFA seemed to have overlooked its initial objections, signalling a growing pragmatism and gradual stabilization of the Czech-Russian relationship, at least in the economic domain.

In an effort to offset the decrease in export revenue, the Ministry of Industry and Trade through its agency CzechTrade promoted greater cooperation with regions in Russia, especially in the Sverdlovsk oblast, Samara oblast and Krasnoyarsk krai. This scheme was realized with active help from the Chamber of Trade and Industry for Commonwealth of Independent States (CIS Chamber). Established in 1997 as a non-governmental and non-profit entity, its mission is to identify potential business opportunities. By providing support in establishing contacts in particular countries, and with Russia representing a lucrative market for a series of Czech businesses, deteriorating relations since 2014 had a negative effect on this body as well. Initially, high-level government trips that were often accompanied by business representatives were no longer allowed, and thus greater interaction with the regions became a potential compromise for both businesses and government officials.

One platform of a slightly different nature is the Russian-Czech Mixed Chamber of Trade. In 2012, a group of Russian and Czech companies (the gas company Vemex, the oil firm Lukoil Czech Republic, Sberbank, and the First Czech-Russian Bank were among the founding members) established this chamber with the objective of "representing and protecting the interests of Russian investors operating in the Czech market, and integrating

Russian businesses within the Czech business community.⁴¹ Its Chairman is Vladimir Ermakov, who was, until recently, the Chief Executive Officer of Gazprom-controlled Vemex. The Chamber organizes seminars or business trips for companies interested in expanding its business in Russia and in 2014 it opened its representation office in Moscow. In addition it is known for lobbying for the Czech-Russian consortium MIR.1200 in Temelín power plant tender. Probably within the scope of these activities, it attempted to increase its visibility by organization of cultural events, some of which took place under auspices of the President Miloš Zeman. In June 2016, the Chamber made itself again visible as it brought a request to the government not to prolong the sanctions regime during the EU summit. Even though the government left the request without reaction and supported the prolonging of sanctions, this case illustrates that these purportedly economic oriented bodies often advance their own political agenda. If they manage to develop close connections to important political figures, they gain significant potential to influence decision-making.

Poland

The key official platform of communication for both sides is the Polish-Russian Intergovernmental Commission for Economic Cooperation, set up in 2005 to discuss a wide range of business interactions. There are also other bodies, such as the Permanent Committee for Transport, the Joint Commission for Fisheries, or the Bilateral Commission for Regional Cooperation. There are also two organizations to specifically support cooperation between companies: the Polish-Russian Chamber of Commerce and the Poland-Russia Business Council (both set up to represent interests of the companies in discussions with the governments).

The Polish-Russian Intergovernmental Commission for Economic Cooperation consists of several working groups responsible for specific domains, such as transport, trade and investments, energy, tourism, military and technical cooperation, agriculture and customs. The body was devoted to both assessing opportunities and managing recurring crises. There were six sessions, with the last one organized in September 2013. Since then, the Commission has not convened which was clearly a direct result of

growing tensions after Russian aggression against Ukraine, and the imposition of sanctions. Existing and emerging bilateral problems began to be managed mainly through bilateral meetings of the respective ministers or their representatives in the framework of the aforementioned working groups (on customs, trans-border cooperation and veterinary issues). For example, in November 2016, the Polish-Russian Joint Commission for International Road Transport met in Cracow to solve the dispute that arose in 2016 with respect to new Russian regulations heavily limiting permits for Polish freight companies. Both sides reached a consensus about a number of permits for 2017.⁴² It shows that the Ukraine crisis had a clear effect on the work of institutional mechanisms.

Given the limited scope of Polish-Russian trade and investment relations, and their significant decrease after 2014, so far, there has not been a serious incentive to return to a comprehensive, institutional mechanism for cooperation. Initially, political costs related to such a move prevailed over would-be economic benefits. Thus, both countries started to work in “crisis management mode” based on ad hoc measures. Only in late 2016 at the Sankt Petersburg Economic Forum did the Polish Deputy Minister for Development meet with his Russian counterpart to discuss a framework for cooperation. The Russian representative proposed resuming the Intergovernmental Commission, which was warmly welcomed. The Polish government reacted positively, though the progress has been modest with no meeting scheduled thus far. Even if the Commission restarts its functioning, it is unlikely that any qualitative changes will develop until the political conflict between the West and Russia is somehow fixed.

Hungary

Hungarian-Russian economic relations have changed remarkably since 2010. As in many other CEE countries, the Joint Economic Committee is the highest bureaucratic coordination level, established in the early 1990s. This bilateral, inter-ministerial body is primarily responsible for the coordination between different authorities and ministries, monitoring the relational trends and the setting of agendas for high-level meetings, and it constitutes the highest preparatory level for decision-making. It is a broad

⁴¹ “Základní informace,” *Official website of the Russian-Czech Mixed Chamber of Trade*, http://www.rckomora.eu/cz/komora/zakladni_informace/ (accessed 10/05/2017).

⁴² “Polska i Rosja podpisały porozumienie o przewozów towarowych,” *Polska Agencja Prasowa*, November 9, 2016, <http://www.pap.pl/aktualnosci/news,700367,polska-i-rosja-podpisały-porozumienie-ws-samochodowych-przewozow-towarowych.html> (accessed 10/06/2017).

structure with many sectoral subcommittees, but without any staff or decision-making powers. Nonetheless, the administrative levels gradually lost their importance, and their functions were then taken over by a system of political messengers and clientele. In June 2012, Prime Minister Viktor Orbán nominated his close confidant, Péter Szijjártó to the position of State Secretary for Foreign Affairs and External Economic Relations at the Prime Minister's Office. In practice, these positions made him responsible for the foreign economic ties with countries outside the EU, an eminent policy field of the government under the label "Eastern opening." His nomination was also comprised of a centralization effort. In this new setting, most of the activities related to high-level decision-making were concentrated in the Prime Minister's Office, with a lesser involvement of ministerial levels. After Viktor Orbán's re-election in 2014, Péter Szijjártó took over the foreign minister's position.

Annual bilateral meetings, usually held in January or early February, between Viktor Orbán and Vladimir Putin have become the norm of Hungarian-Russian relations since 2010. Putin's visit to Budapest in February 2015 is the most noteworthy from this list. Symbolic steps as such fit well into Viktor Orbán's image of sovereign national foreign policy and as an alternative to Western mainstream politics. On the public level, statements and press conferences show a strong *quid pro quo* logic; both leaders avoid topics which are sensitive for them. Hardly anything is to be known about the channelization of interests into this system. It is reasonable to assume that these relations are predominantly made by politicians, rather than businessmen. The construction, infrastructural, and energy sectors dominate the economic agenda, often represented by state-owned enterprises or little-known smaller companies.

Slovakia

Since the establishment of the independent Slovak Republic, the key institution for articulating the economic interests of Slovakia and Russia in bilateral trade was the Intergovernmental Commission for Economic and Trade Cooperation. The Commission was particularly popular during the government of Vladimír Mečiar. However, the Mikuláš Dzurinda's government, formed in 1998, tried to demonstrate to the West its desire to put Slovakia "back on track"

towards the EU, and on to accession into NATO, which meant eliminating the pro-Russian orientation from the Mečiar era. The aim was then to set up a more balanced Eastern policy, seeking, for instance, to create closer relations with the countries that are now a part of the Eastern Partnership initiative. Russia remained a strategic partner in both energy security and trade, but Slovakia's main orientation was towards the West. Once Slovakia entered the EU, bilateral negotiations were transferred onto the EU level and the Commission was dismissed. When Fico's government entered office in 2006, it was one of his main priorities to renew previous relations with Russia. In terms of economic diplomacy, the Intergovernmental Slovak-Russian Committee for Economic and Scientific-Technical Cooperation was re-established, followed by the establishment of the Slovak-Russian Business Council (2007).

The 12th session (and the first in this new format) of the re-established intergovernmental committee was held in Moscow in February 2007. Both sides agreed on strengthening and developing bilateral cooperation, particularly in the energy sector, and agreed to organize regular meetings. The first meeting after the sanctions were imposed, the 17th session, was supposed to take place in June 2014. However, it was postponed to May 2015 (because of the implementation of such restrictive measures). Slovakia was represented by Lubomír Vážný, the Vice-chairman of the Council of the Slovak Republic for Investments, and the corresponding Russian representative was Denis Manturov, the Minister of Trade and Industry. Both parties agreed to the development mutual economic cooperation, primarily in the energy and industry sectors (including armory).⁴³ The 17th session seemed to lift both parties' spirits, with both sides expressing a keen interest in deepening the economic cooperation. However, neither side brought up the issue of sanctions. Considering the continuous renewal of the restrictive measures and the economic crisis that Russia is facing, the optimism experienced in this meeting may no longer be reflected in Slovak-Russian relations.

The Slovak-Russian Business Council is a civic organization connecting and supporting business representatives, as well as private and public organizations in the Slovak Republic and in the Russian Federation. The council meets annually

⁴³ Vazil Hudak, "Informácia o priebehu a výsledkoch 17. zasadnutia Medzivládnej komisie pre hospodársku a vedecko-technickú spoluprácu medzi Slovenskou republikou a Ruskou federáciou v dňoch 5. – 6. mája 2015 v Bratislave a Návrh vykonávacieho protokolu," *Position paper for government negotiation*, September 17, 2015.

with its Russian counterpart.⁴⁴ The Council also took part in the 17th session of the Intergovernmental SK-RU Committee, where it organized the Slovak-Russian Business Forum. According to the Ministry of Economy of the Slovak Republic, one of the results was the foundation of the working group focused on the recognition of the prospective Slovak-Russian

projects, in addition to garnering financial support. These two aspects are the most critical, and the Business Council may help to improve the situation and, eventually, to contribute further to the development of bilateral trade.

⁴⁴ "O nás," *Official website of the Slovak-Russian Business Council*, <http://www.srpr.sk/o-nas/> (accessed 20/05/2017).

RUSSIA'S ROLE IN THE ENERGY SECTOR OF THE VISEGRAD COUNTRIES

Czech Republic

The Czech Republic's dependence on Russia as an energy provider is significant. Russian gas covers almost the entire domestic consumption, and Russian oil accounts for some two thirds of Czech oil imports. Moreover, Russia positions itself as a vital player in the nuclear energy sector. The security risks stemming from this excessive reliance has moved up the government's agenda since the 2009 gas crisis. The beginning of the Ukraine crisis in 2014 only deepened already existing concerns.

Part of this debate is correlated to the Nord Stream 2 project, where the Czech government continues to adopt a hesitant position. Officially, it appears to acknowledge the role of Ukraine as an important transit country and finds it vital to keep this route functional, yet, it does not necessarily oppose the Nord Stream expansion as clearly as other Visegrad countries. This can be partly explained by the fact that since the 1990s, the Czech Republic followed a path of diversification in terms of both routes and sources. In this case, the source of gas will remain the same, namely Russia, but an existing pipeline coming from the North will increase its volume. Through this lens, if the volume of transiting gas via Ukraine decreases in the future, the security of supply will nevertheless be secured from the North. Furthermore, the vast majority of gas supplies crossing the Czech Republic through a robust gas infrastructure network is destined for foreign customers. The Nord Stream 2 could possibly increase incomes from gas transit fees, if the gas flowing through it is further transported over Czech territory to the South and East – to Austria or Slovakia.

Potential economic benefits stemming from Nord Stream 2 might have influenced the Czech government's decision to oppose signing a letter from December 2015, addressed to the highest executives of the EU stipulating that realization of the Nord Stream 2 project could lead to weakening of energy security in Central Europe, as well as the EU. The signing of the letter only occurred in its "milder version" a few months later in March 2016. In an effort to provide an explanation for this decision, the former Czech Industry and Trade minister, Jan Mládek, noted that the proposed pipeline would translate into a significant reduction and possibly even suspension of the transit of gas across Ukraine, which could ultimately have a considerable impact on its trade and political

stability.⁴⁵ For the Czech government, it is imperative to have as many gas supply lines as possible in order to ensure Czech energy security. As Russian gas provides for some two thirds of the country's needs, its delivery would be maintained preferably through the territory of the Ukraine as well as through the Baltic Sea.

Russia additionally occupies a dominant position in the nuclear energy dimension, which forms a sizeable part of the Czech energy mix, accounting for roughly 19 % of the country's electricity supply. Not only are Czech nuclear power plants built using mostly Soviet technology, but also the nuclear fuel is provided, until at least 2020, by the Russian company TVEL, which belongs to the state-owned corporation Rosatom.

In 2009, a tender process at the Temelín power plant was launched with the goal to construct two additional units. It received bids from three candidates, including Rosatom. In order to strengthen its bid, the company offered full coverage of the project costs through one of its subsidiaries. This was hardly able to be matched by any other candidate, especially as the other contender, Westinghouse, was only able to secure 50% financing from the U.S. Exim Bank. Moreover, Rosatom signed a memorandum of understanding with over a dozen Czech and Slovak companies, through which it offered the chance to participate in the construction of other Russian-designed plants around the world.

With such financing and the presentation of a unique opportunity for local companies, Rosatom was generally expected to win the tender, but in the wake of the Ukraine crisis, involvement in Russia's strategic state-owned company was likely judged too controversial for the Czech government. In April 2014, the tender process was cancelled altogether after government's decision not to provide any guarantees to the project.

Reflecting long-term plans to increase the percentage of nuclear energy in the country's energy mix and reduce its dependence on coal, the Czech Republic began to indicate its preparedness to build additional units at its second power plant in Dukovany in 2015. In that respect, it is important to note that both current reactor units at Dukovany are nearing the end of their service life. In order to maintain the supply of nuclear energy at the current level, the

⁴⁵ "Mládek: Nord Stream by se mohl rozšířit, kdyby padla dohoda o zachování ukrajinské cesty," *Euroactive*, <http://euractiv.cz/clanky/energetika/mladek-nord-stream-by-se-mohl-rozsirit-kdyby-padla-dohoda-o-zachovani-tranzitu-pres-ukrajinu-013090/>

construction of the additional reactors has to be finished by 2035. According to Jan Štuller, the Czech government commissioner for nuclear energy, to meet this deadline the method of financing and tender process needs to be defined by 2018, with the selection of the supplier in realized by 2020.⁴⁶ The six companies expressing interest in the project once again also included the state-owned Rosatom. While financing is usually a worrying concern in the case of nuclear projects, Rosatom's director, Kirill Komarov, suggested that the company could once again provide the financial backing. Moreover, he noted that an open tender "does not represent the right approach," possibly suggesting that Rosatom would prefer intergovernmental contract, which was the case with Hungary's Paks power plant.⁴⁷ Strikingly, President Miloš Zeman expressed a similar opinion during his visit to Dukovany in June 2017, stating that he would not mind if the state directly awarded the contract to Rosatom without a public tender, thus openly contradicting the government position on the issue.⁴⁸

The tender preparations have been initiated by the 2013–2017 government. For the final design, however, a government formed after the autumn 2017 parliamentary elections will be responsible. The choice of tender procedure will be a critical one: the new reactors in Dukovany will still be in service in 2100 and the selection of their supplier is, therefore, a deeply strategic decision. If Rosatom participates in the construction, Russia's leverage in the country would significantly increase.

Poland

The security of Polish energy supply has been a focal point of Polish energy policy for many years due to Russia's position of the dominant oil and gas supplier (with over 90% and 70% dependence respectively) for historical (East-West infrastructure inherited after the Soviet bloc), geographical (relative proximity) and economic reasons (relatively low prices, though in the case of gas, this issue ceased to be valid in recent years). What made Polish policy-makers and public opinion anxious was a general suspicion that Russia might be willing to use its position not only

for commercial gain, but also for political interests. Repeated gas crises contributed to those fears, in addition to an increased determination to get access to new suppliers and routes so as not to be held hostage by a third party's gas disputes any more. The conflict in Ukraine triggered Polish attempt to get back to the projects abandoned more than a decade earlier, such as the Baltic Pipe.⁴⁹

An almost total reliance on oil has not been securitized as much as a dependence on gas, because of a lower level of vulnerability to disruption for the former. An oil terminal located in Gdansk allows Poland to reach other potential suppliers all over the world, which subsequently can help to supplement, or even replace, Russian oil transported through the Friendship pipeline. In the case of gas deliveries, Poland focused its energy only on a limited amount of infrastructure, which was consequently developed in order to ensure contractual and physical security through the diversification of its suppliers and regional interconnections. The key element of the Polish energy security strategy became the LNG terminal. It took about ten years to translate an idea from 2005 into reality, but in late 2015 the terminal in Świnoujście, with an annual capacity of 5 bcm (about 1/3 of the Polish demand) became operational and started to receive deliveries from Qatar the following year. A long-term contract with Qatar was supplemented with spot cargos. Quite symbolically, in June 2017 Poland received first delivery of LNG from the U.S.⁵⁰

Other measures aimed at reducing sensitivity to would-be Russian pressure included building and planning new inter-connectors between Poland, Germany, the Czech Republic and Slovakia and first a virtual, then a physical reverse flow on the Yamal-Europe gas pipeline. Moreover, in 2014, Poland launched an Energy Union initiative in the EU, a comprehensive action plan to improve EU energy security (the idea was taken over by the European Commission later on and extended to include other components of EU energy policy, such as climate action).

Most of these actions were not directly related to recent Russia-Ukraine war since they started much earlier. However, the current crisis increased Poland's

⁴⁶ Robert Břešťan, "Český "pan Jádno": Nový jaderný blok bychom měli spustit v roce 2035," *HlidacíPes*, October 4, 2016, <http://hlidacipes.org/cesky-pan-jadro-novy-jaderny-blok-bychom-meli-spustit-v-roce-2035/> (accessed 14/07/2017).

⁴⁷ Jan Brož, "Tendr na jaderné bloky není efektivní. Je to ale možnost, říká šéf Rosatomu," *iDnes.cz*, February 4, 2017, http://ekonomika.idnes.cz/kirill-komarov-rosatom-rozhovor-jaderne-reaktory-dostavba-pq0-/ekonomika.aspx?c=A170130_2302287_ekonomika_rts (accessed 30/06/2017).

⁴⁸ "Nebyl bych proti zadání Rusům, řekl Zeman o rozšiřování Dukovan," *iDnes.cz*, June 29, 2017, https://jihlava.idnes.cz/prezident-milos-zeman-v-jaderne-elektrarne-dukovany-f9x-/jihlava-zpravy.aspx?c=A170629_151855_jihlava-zpravy_mv (accessed 31/07/2017).

⁴⁹ *Press release of the Polish Gas Transmission Operator Gaz-System*, June 6, 2017, <http://en.gaz-system.pl/wsparcie-z-ue/transeuropejska-siec-energetyczna-nen-e/baltic-pipe/> (accessed 04/07/2017).

⁵⁰ Robbie Gramer, "First U.S. Natural Gas Shipped to Poland," *Foreign Policy*, June 8, 2017, <http://foreignpolicy.com/2017/06/08/first-u-s-natural-gas-shipped-to-poland/> (accessed 04/07/2017).

determination to further reduce its reliance on the East-West axis through the development of the so called Northern Gate, currently with the LNG terminal (potentially also floating terminals in the more distant future). Additionally, the new Baltic Pipe gas pipeline would integrate Norwegian gas deposits (through Denmark) with Central and South European gas markets (and Ukraine). Relatively new, and seemingly related to Russian aggression against Ukraine, is the resolve to adopt the capability to satisfy Polish energy demands with Russian deliveries as an option, not a necessity, by the time the current long-term contract with Gazprom expires (i.e. by 2022).

The idea of a Northern Gate, which aims at the diversification of suppliers and the transformation of Poland into a regional gas hub, collided with new Russian efforts (backed by some Western companies and cautiously supported by some Western governments) to build the Nord Stream 2 (two additional pipelines parallel to the already existing Baltic route) which would significantly increase the Russian presence in Western markets, and render Polish projects more difficult, if not impossible, to be realized.

Unsurprisingly, the Polish government belongs to the fiercest critics of the Nord Stream 2, which is seen as a clear contradiction with the principles of the Energy Union, the security of supply, the solidarity clause, and competition. The opposition took practical measures when Poland's anti-monopoly watchdog (UOKiK) decided that the planned joint venture by Russia's Gazprom and five European companies to build the Nord Stream 2 gas pipeline could undermine regional competition. This decision forced the consortium to change its structure with Gazprom as a sole shareholder, with other companies (Uniper, OMV, Shell, Engie and Wintershall) downgraded as supporters. Obviously, this cannot block the whole project but it nevertheless illustrates Polish political action with legal tools.

When the European Commission announced at the end of October a controversial decision on OPAL, in which it practically made available almost its full capacity to Gazprom, the Polish government and the gas company PGNiG went to the European Court of Justice and other German courts and managed to temporarily suspend the execution of this decision. This suspension was revoked in July 2017 by the ECJ,

but the case is pending with a verdict expected in 2019, which might have profound impact on EU energy policy and Russian gas ambitions in the EU. From the Polish perspective, it is simply impossible to reconcile the EC interpretation of security of supply and competitiveness as explained in the decision, with repeated calls for diversification and regional integration, let alone in a broader political, security and military context. In June 2017, the Polish government officially adopted a position towards Nord Stream 2, though the document is classified. However, Polish officials indicated that Nord Stream 2 should not be built, since it would result in an increase of Central Europe's dependence on a single supplier. They also announced taking legal and political measures to convince their other EU partners that the project poses significant risks for the region as a whole.⁵¹

Hungary

By the time of the Ukrainian crisis and the imposing of sanctions, Hungary engaged Russia in some delicate energy matters. The two most noteworthy elements are the gas supply relations and the nuclear power plant Paks 2 construction project. Gas export relations became more politicized due to the government's nationalization efforts. Foreign companies, like E.ON, GDF, RWE were ousted by 2015 and gas negotiations were brought under political control. Gazprom may have also contributed to Viktor Orbán's populist utility rate cuts by decreasing the import prices in the time of the 2014 electoral campaign.

The other major factor was the agreement on the construction of two new 1200 MW nuclear blocs by 2025–2027. In 2012, the existing nuclear blocs generated 45,9 % of the gross electrical power produced in Hungary.⁵² Notwithstanding such a high percentage, these units will have to be decommissioned in the 2030s, raising the issue of their substitution. The new units, contracted in 2014, shall substitute the old ones and come online by the mid 2020s. These contractual relations raise many sensitive issues and constitute a turnaround in Hungary's diversification efforts.

The case of Nord Stream 2 also shows signs of a dual-track approach. Hungary signed the letter with seven other East European countries, objecting the Nord Stream 2 project supposedly for energy security reasons

⁵¹ "Nord Stream 2: rząd zajął stanowiskiem wobec gazociągu," *Polska Agencja Prasowa*, June 6, 2017, <http://www.polskieradio.pl/42/3167/Artykul/1773680,Nord-Stream-2-rzad-zajal-stanowiskiem-wobec-gazociagu> (accessed 04/07/2017).

⁵² "A Magyar Villamosenergia-Rendszer (VER) 2012. Évi Statisztikai Adatai [Statistical Data of the Hungarian Power System 2012]," *MEKH*, http://www.mavir.hu/documents/10258/154394509/a_magyar_villamosenergia_rendszer_2012_evi_statistikai_adatai.pdf/b1fcbe6e-ed81-42bc-bf05-569aec2cfaa3 (accessed 14/11/2014).

in March 2016.⁵³ Nonetheless, the Hungarian protest was a bit oxymoronic in light of Budapest's strenuous efforts to construct a South Stream a couple of years ago. There was hardly any evidence that Hungary's position had changed since that time. Foreign Minister Péter Szijjártó publicly compared the South Stream to the Nord Stream, hinting at a potential double standard in the EU's approach to the two pipelines.⁵⁴ Thus, the Hungarian opposition to Nord Stream was rather a tactical move than a matter of true security concern. Budapest expressed its dissatisfaction with the lost opportunities on the Southern flank and did not want to lose these opportunities by granting an easy go to the German pipeline.

The wish to preserve a considerable Russian nexus in the energy field is not purely political. For many corporate stakeholders, Russian ties are the main instrument for preserving their market share or sheer sectoral existence. For the nuclear industry, the renewal of the capacities beyond the 2030s is a matter of survival, and hardly anyone can offer better terms for such a construction than the Russians. For the national energy champion, the power company MVM Group, the alternative to the LTSC would be a more liberalized, and fragmented national gas trading landscape, accompanied with a heavy drop of its market share. Thus, MVM is interested in maintaining the current patterns of gas imports and it is in its eminent interests to keep the relations heavily politicized. For Prime Minister Viktor Orbán, the EU regulations regarding the gas and electricity markets hide imminent threats to his utility rate cut efforts, thus his preferences on the Russian monopoly provide an important excuse. These sectoral considerations point towards further maintenance of the current status quo. The Russian "conservative" view on the future of the European energy markets is relatively popular among industrial stakeholders, strengthening the local ideological underpinnings. Unlike before 2009, choosing Russia is not simply a geopolitical or security matter, but often represents an option for the traditional model of energy markets vis-à-vis European trends.

Slovakia

Slovakia is one of the EU countries which is most dependent on external energy supplies, as it imports almost 90 % of its primary energy resources. In Slovakia, they come from a single supplier – the Russian Federation, especially when it comes to the crude oil and natural gas.⁵⁵ The gas crisis of January 2009 demonstrated Slovakia's energy vulnerability in full scope when the gas supplies were cut off due to the Russian-Ukrainian dispute over gas prices. Because of this unexpected disruption, Slovakia, as both a recipient and as the second largest transit country of Russian gas to Europe (after Ukraine), suffered from enormous economic damages. The loss was estimated at 1 billion euro over the duration of the whole crisis, which led to the gas-related recession and a 1–1,5% decrease in GDP.⁵⁶ This experience forced the Slovak government to reevaluate its previously reluctant attitude towards the diversification of natural gas resources to enhance energy security as well as market competition.

Even though Slovakia secured other avenues for its gas supplies after the 2009 crisis (thanks to the modernization of gas connections on the border with Austria and the Czech Republic, and due to the current North-South Corridor project), it still purchases almost all the gas it consumes from Gazprom. One of the main reasons for this is that Russian gas is the cheapest one. According to the Russian news agency TASS, the price for gas which Slovakia paid to Gazprom in 2014 was one of the lowest in the EU – the average price of Russian gas supplied to clients in the EU and in Turkey was higher by 33 dollars per 1000 m³ than what Slovakia paid (308 dollars per 1000 cubic meters). Thus, it can be observed that Slovakia has a very advantageous contract with Gazprom. However, as the crisis of 2009 indicated, price cannot be the one and only factor when choosing a supplier in such a crucial field as an energy sector. And in 2014/2015 Russia demonstrated, once again, that it is not a reliable partner.

In September 2014, Bratislava started Central Europe's largest gas reverse (70 % of the total supply from Europe), allowing gas to be sent to Ukraine, thereby undermining the interests of Gazprom. In response to this, Russia reduced the volume of gas

⁵³ Andrius Sytas, "EU leaders sign letter objecting to Nord Stream-2 gas link," *Reuters*, March 16, 2016, <http://uk.reuters.com/article/uk-eu-energy-nordstream-idUKKCN0W11YV> (accessed 30/01/2017).

⁵⁴ "Hungary opposes Nord Stream II, speaks of negative impact on Eastern Europe," *Natural Gas World*, October 22, 2015, <http://www.naturalgasworld.com/hungary-opposes-nord-stream-ii-speaks-of-negative-impact-on-east-europe-25989> (accessed 30/01/2017).

⁵⁵ "Slovak Republic: Energy System Overview," *IEA*, <https://www.iea.org/media/countries/SlovakRepublic.pdf> (accessed 18/07/2017).

⁵⁶ Andrej Nosko and Peter Ševce, "The Evolution of Energy Security in the Slovak Republic," *Journal of Energy Security* (2010), http://www.ensec.org/index.php?option=com_content&view=article&id=262:the-evolution-of-energy-security-in-the-slovak-republic&catid=110:energysecuritycontent&Itemid=366 (accessed 18/07/2017).

supplied to Slovakia by nearly half, using the need to replenish its stock as a pretext. These retaliatory measures, which lasted until March 2015, failed to have a negative effect on the Slovak economy. Quite the contrary – according to the Ministry of Economy of SR, the gas reverse to Ukraine was a “win-win” situation as it was a significant help to their eastern neighbor, as well as a good source of income for the state budget.⁵⁷ Even though this experience did not cause any damage to the Slovak economy or their energy security as such, it was a very valuable lesson. Firstly, if the official narrative was true and there were problems with the Siberian gas extraction, in order to secure the stability of gas supply it is crucial to find a supplier who does not have to face these types of problems. Secondly, if it was only part of a political game because of the situation in Ukraine, then the situation is even more alarming; it is a clear sign that the rational economic interests are not a decisive factor for Gazprom or the Kremlin. And a country as dependent on external providers as Slovakia simply cannot afford gambling with its energy security in such a way, even though Slovak gas consumption has been continuously decreasing and the alternative sources of energy are trending. The current Slovak contract with Gazprom is valid until 2028 but it is crucial that Slovakia continues the diversification of its gas sources, transmission routes, and finds a way to maintain its position as a strategic transit country. Particularly since Russia backed out of the South Stream project, and is now pushing for the Nord Stream 2 pipeline, the Turkish Stream construction has been planned and the transportation of natural gas via Ukraine will be stopped after 2019. Fico admitted that Slovakia cannot block construction of the Nord Stream 2 pipeline.⁵⁸ The current debate is focusing on the issue of European companies which support Nord Stream 2 are going against the EU’s interests. The US sanctions on companies dealing with Russia and a tricky timeline should ease Slovakia’s constantly

narrowing path for a time. Nevertheless, according to the Bruegel, it would do more harm than good.⁵⁹

What Are the Alternatives?

One of the measures securing Slovakia’s position as a transit country has been the provision of a reverse flow to Ukraine. After the reconstruction of the pipeline Vojany-Uzhorod and the start of the gas transmission to Ukraine, suppliers bought out the volume of the gas export up until 2019. Moreover, the initial investment by Eustream, that was necessary for its reconstruction, was repaid within a year.⁶⁰ Overall, the reverse flow to Ukraine can be considered a success.

Another option enabling Slovakia to sustain the status of a significant transit country is the Easting gas pipeline project. This pipeline would connect Western Europe with Romania and Bulgaria, via Slovakia and Hungary, and would also be connected to the Turkish Stream. If Easting and Turkish Stream become reality, it would serve to improve the security of supplies in Central and South-Eastern Europe. However, the fact that Fico has combined the Slovak Easting project and the Russian Turkish Stream project undoubtedly served Moscow’s interests, and could possibly hamper actions involving the Easting project’s promotion in the EU. As Grigorij Mesežnikov suggests: “[Fico] comes from the idea, and it seems to be finding some resonance in Slovak society, that simply the question of one’s own benefit is more important than strategic considerations.”⁶¹

For Slovakia, probably the most feared development is the gas transport from Russia to Europe via Nord Stream 2, as it would cost the state budget hundreds of millions of euro. However, even then, cooperation is still an option. If this plan was realised, Slovakia could transfer gas from the Czech Republic to Austria. Moreover, further transfer would be possible via Easting to South-Eastern Europe.⁶²

⁵⁷ Marek Garbarčík, “Informacny material na rokovanie Rady Vlady SR pre podporu exportu a investicii 18.2.2015,” *Information material for government negotiation*, https://www.mzv.sk/documents/10182/11855/Informacny+material+RVPEI+_sankcie+EU+-+RF.pdf/d5399da5-982c-42ac-9cf5-0a2a9e30a36e (accessed 10/02/2017).

⁵⁸ “Fico admits that Slovakia cannot influence Nord Stream 2,” *vEnergetike.sk*, August 24, 2016, <https://venergetike.sk/fico-admits-that-slovakia-cannot-influence-nord-stream-2/> (accessed 31/07/2017).

⁵⁹ Georg Zachmann, “Nord Stream 2 can wait,” *Bruegel*, June 13, 2017, <http://bruegel.org/2017/06/nord-stream-2-can-wait/> (accessed 01/07/2017).

⁶⁰ “Reverzný tok plynu na Ukrajinu je aj dobrým biznisom, tvrdí analytik,” *Teraz*, September 26, 2014, <http://www.teraz.sk/ekonomika/reverzny-tok-plynu-na-ukrajinu-biznis/99658-clanok.html> (accessed 01/07/2017).

⁶¹ “Slovakia nurtures special ties to Russia, despite EU sanctions,” *Reuters*, May 22, 2014, <http://uk.reuters.com/article/ukraine-crisis-slovakia-idUKL6N00847Y20140522> (accessed 01/07/2017).

⁶² “Nord Stream 2: Bliži se Slovensko a Rusko ke smíření?” *Euractiv*, July 7, 2016, <http://euractiv.cz/clanky/energetika/nord-stream-2-blizi-se-slovensko-a-rusko-ke-smireni-013395/> (accessed 31/07/2017).

CONCLUSION

Prior to the outbreak of the Ukraine crisis, notable similarities existed in terms of trade dynamics between the Visegrad countries and Russia. These positive trade processes began to develop with the recovery of the Russian economy after the Russian financial crisis of the late 1990s. As a result, trade turnover demonstrated an upward trajectory, with one watershed following the financial crisis in 2008. Accompanied by booming energy prices and Russian internal demand, trade volumes between the Visegrad countries and Russia had been generally growing quite intensively until 2014. In the case of Poland, for example, turnover reached 26,8 billion euro in 2013, illustrating almost a tenfold increase since the beginning of the millennium. Russia has thus regained its position of an important trade partner for Visegrad countries, especially when non-EU countries are taken into consideration. The vast majority of trade, however, occurs with the EU member states, and Russia's share in total foreign trade of individual countries has only reached single digits. Moreover, mutual investments have been statistically rather insignificant, with sporadic large-scale investment projects such as the Paks 2 nuclear power plant project in Hungary.

Nevertheless, the tumultuous events that occurred in Ukraine and eventually led to the Russian annexation of Crimea and involvement in the armed conflict in Eastern Ukraine represented a significant challenge for relations between the Visegrad countries and Russia. In its immediate aftermath, mutual contacts almost completely froze and the level of economic cooperation diminished. The volume of total trade between the Visegrad countries and Russia has experienced a notable decrease since 2014. The emerging tensions spurred a wave of uncertainty among the governments and business communities as to whether this challenge represented a temporary phase or a new state of relations which would require necessary adjustments.

When examining the impact of sanctions against Russia and Russian counter-sanctions on the economies of the Visegrad countries, there is an asymmetry between their expected and real impact. One should not dismiss losses that incurred to certain sectors and producers with poorly diversified portfolio largely reliant on Russian customers (apple exports in Poland recorded a 12% drop in 2015), but from the macroeconomic point of view, the economies have been only slightly affected. For example, despite Hungary's

generally negative attitude towards sanctions, one could hardly identify any particular sectors where economic interests would have been directly hit by the sanctions. Most of the companies hit by sanctions have successfully adapted to the new circumstances by redirecting their exports to other markets, or by moving their production to Russia. Moreover, within the agricultural sector, the EU provided partial compensation and in combination with government support, this created an impetus for adjustments to the Visegrad state's export strategies.

It is important to note, however, that it is almost impossible to assess the full effect of the sanctions regime due to other crucial factors at play that are difficult to disentangle. These factors include the sharp decline in commodity prices in 2015, the devaluation of rouble, the consequent weakening of Russia's purchasing power or Russian policies adopted in order to enhance its self-sufficiency. In light of these developments, sanctions are believed to play only a minor role in the overall plunge of bilateral trade with Russia.

All four Visegrad countries have developed institutional mechanisms to promote and secure trade with Russia, including inter-governmental commissions for economic and scientific cooperation. The variety of ways of how the commissions' works have been influenced in light of the Ukrainian conflict nicely reflect and illustrate the differences in each individual country's approach towards Russia. All of these intergovernmental bodies suspended their work and did not convene in immediate reaction to Russia's activities in Ukraine but as time passed, they engaged Russia on a different set of trajectories. While there are no talks about resuming the commission's work in Poland, in Slovakia and the Czech Republic they have already reconvened, in 2015 and 2016 respectively. In Hungary, the administrative levels had gradually lost their importance, and the committee's functions were taken over by a system of political messengers and clientele.

Polish restraints, Hungarian relative openness and Czech and Slovak hesitant positions towards Russia have been visible also in the energy sector, especially with regards to planned projects such as the Nord Stream 2 pipeline or the construction of nuclear power plants. All the Visegrad countries are heavily dependent on Russia's oil and gas supplies and, with the exception of Poland, they largely rely on Russia's supplies and technologies also in the nuclear energy field. Since the gas disputes between Russia

and Ukraine in 2009, ensuring higher energy security and independence has become a policy priority, and all the countries have achieved significant progress in this respect – they diversified the transport routes, and built gas reservoirs or interconnectors. However, there is no consensus among the Visegrad countries on whether further cooperation with Russia in the energy sector should be avoided or not. Poland is the fiercest opponent of the Nord Stream 2 pipeline project and while other Visegrad countries support its position (though the Czech Republic only very hesitantly), their general approach is much more pragmatic. To mention another example, in early 2014, Russia and Hungary signed an intergovernmental agreement on the construction of the Paks 2 nuclear power plant and despite controversies that this project has aroused given following developments in Ukraine, it has not been cancelled.

Since the adoption of sanctions a clear asymmetry between the official diplomatic positions and the political rhetoric directed at domestic audiences

has been visible. Although the actual economic losses of these restrictive measures have been rather limited, various political figures and business representatives are likely to continue suggesting that sanctions aimed at changing Russia's behavior towards Ukraine are having limited effect and that Russia represents an indispensable market which should not be abandoned. It is, however, critical to explore motivations behind these calls. Are they driven by a desire to enhance economic performance of the individual states or by own interests and profits of influential persons and groups with close ties to Russia. This study examined the current state of Visegrad countries' economic relations with Russia, juxtaposed it with the populist discourses, and identified the influential players and their motivations. By doing so, it helped to better understand the situation and pointed to important realities that should be considered when formulating future policies towards Russia.

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SUPPLEMENT

Standard International Trade Classification

SITC0	Food and live animals	SITC5	Chemicals and related products
SITC1	Beverages and tobacco	SITC6	Manufactured goods classified chiefly by material
SITC2	Crude materials, inedible, except fuels	SITC7	Machinery and transport equipment
SITC3	Mineral fuels, lubricants and related materials	SITC8	Miscellaneous manufactured articles
SITC4	Animals and vegetable oils, fats and waxes	SITC9	Commodities and transactions not classified elsewhere in the SITC

37

ECONOMIC RELATIONS BETWEEN THE VISEGRAD COUNTRIES AND RUSSIA SURROUNDING THE UKRAINIAN CRISIS

CZECH REPUBLIC, TRADE WITH RUSSIA

mil. EUR

	2008	2009	2010	2011	2012	2013	2014	2015	2016
IMPORTS	5 987	3 721	4 893	5 235	5 750	5 383	4 148	3 133	2 113
SHARE OF IMPORTS	6%	5%	5%	5%	5%	5%	4%	2%	2%
EXPORTS	2 911	1 877	2 673	3 758	4 696	4 474	4 105	2 889	2 780
SHARE OF EXPORTS	3%	2%	3%	3%	4%	4%	3%	2%	2%
BALANCE OF TRADE	-3 076	-1 843	-2 221	-1 476	-1 054	-909	-42	-243	667
TRADE TURNOVER	8 897	5 598	7 566	8 993	10 446	9 857	8 253	6 022	4 894

POLAND, TRADE WITH RUSSIA

mil. EUR

	2008	2009	2010	2011	2012	2013	2014	2015	2016
IMPORTS	13 711	9 085	13 625	18 078	21 559	18 654	17 060	12 618	10 272
SHARE OF IMPORTS	10%	8%	10%	12%	14%	12%	10%	7%	6%
EXPORTS	6 041	3 594	5 042	6 080	7 724	8 113	7 006	5 119	5 207
SHARE OF EXPORTS	5%	4%	4%	4%	5%	5%	4%	3%	3%
BALANCE OF TRADE	-7 669	-5 491	-8 583	-11 998	-13 834	-10 541	-10 054	-7 499	-5 065
TRADE TURNOVER	19 752	12 679	18 667	24 158	29 283	26 767	24 067	17 737	15 478

HUNGARY, TRADE WITH RUSSIA

mil. EUR

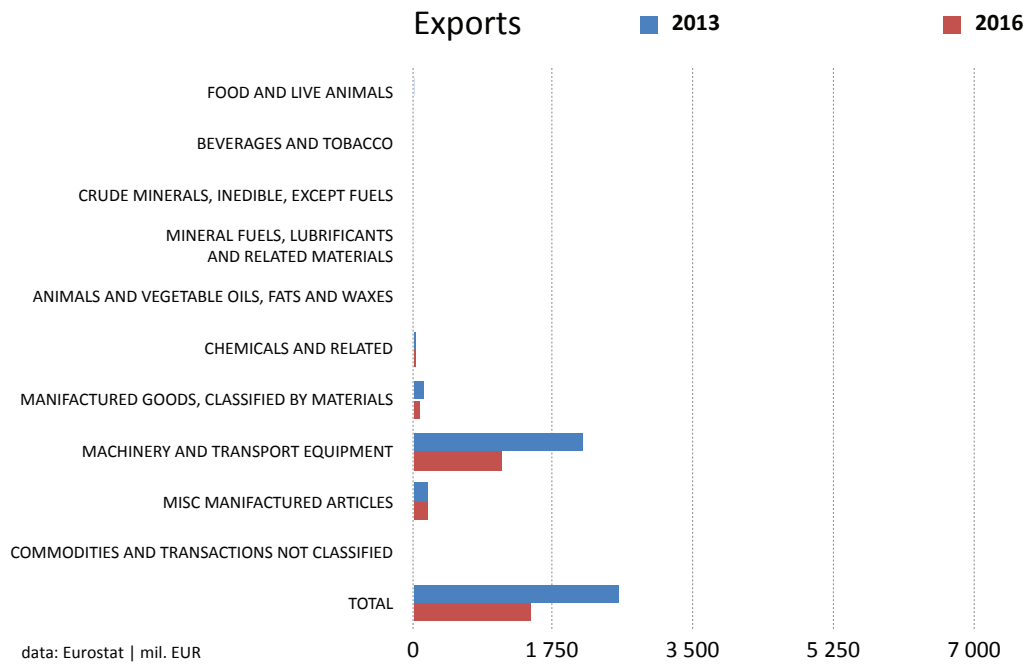
	2008	2009	2010	2011	2012	2013	2014	2015	2016
IMPORTS	6 651	4 091	5 201	6 379	6 447	6 395	5 404	3 282	2 376
SHARE OF IMPORTS	9%	7%	8%	9%	9%	8%	7%	4%	3%
EXPORTS	2 666	2 124	2 569	2 586	2 565	2 526	2 069	1 504	1 412
SHARE OF EXPORTS	4%	4%	4%	3%	3%	3%	2%	2%	2%
BALANCE OF TRADE	-3 986	-1 967	-2 632	-3 793	-3 882	-3 869	-3 335	-1 778	-963
TRADE TURNOVER	9 317	6 215	7 770	8 965	9 012	8 922	7 474	4 787	3 788

SLOVAKIA, OVERVIEW OF TRADE WITH RUSSIA

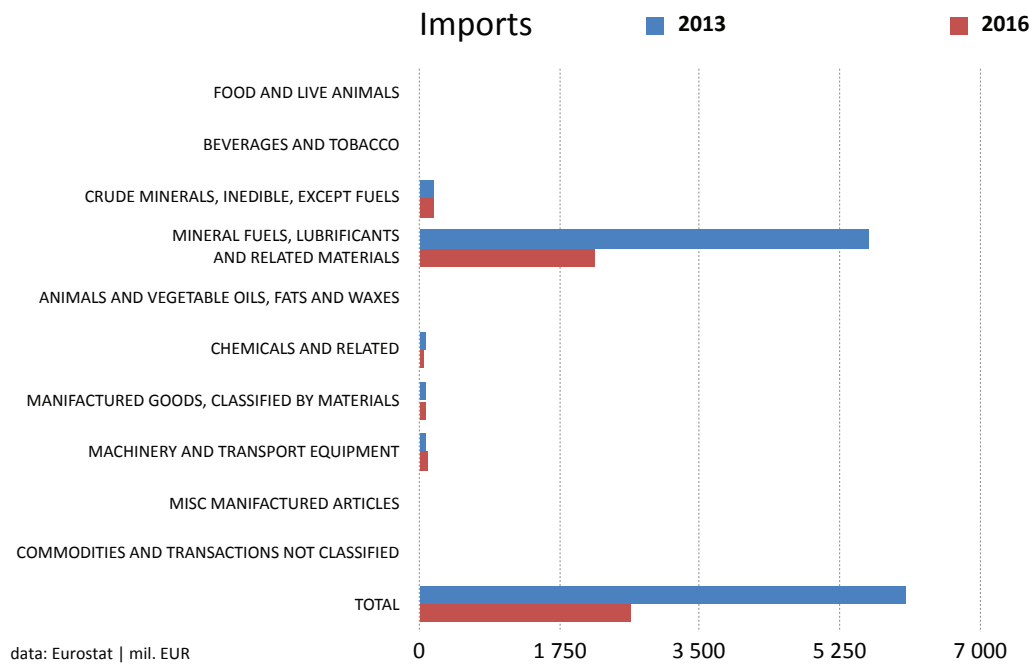
mil. EUR

	2008	2009	2010	2011	2012	2013	2014	2015	2016
IMPORTS	5 258	3 473	4 679	6 212	5 949	6 064	4 780	3 433	2 646
SHARE OF IMPORTS	10%	9%	10%	11%	10%	10%	8%	5%	4%
EXPORTS	1 811	1 415	1 932	2 090	2 638	2 555	2 130	1 527	1 479
SHARE OF EXPORTS	4%	4%	4%	4%	4%	4%	3%	2%	2%
BALANCE OF TRADE	-3 448	-2 057	-2 747	-4 122	-3 311	-3 510	-2 650	-1 906	-1 167
TRADE TURNOVER	7 069	4 888	6 611	8 301	8 587	8 619	6 910	4 960	4 125

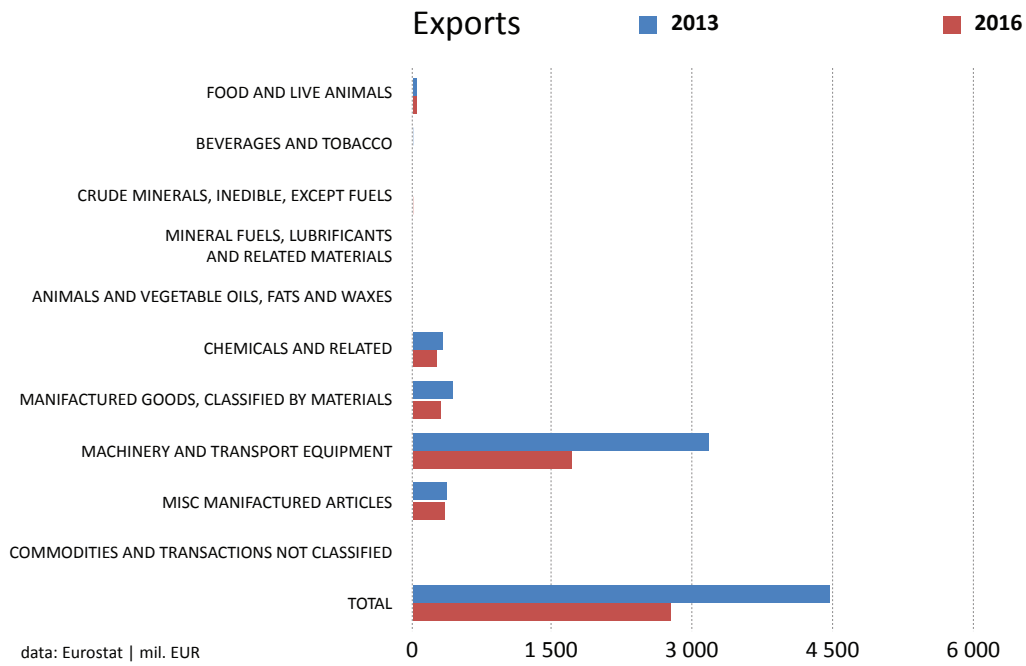
Graph 14: Slovak-Russian Exports in SITC



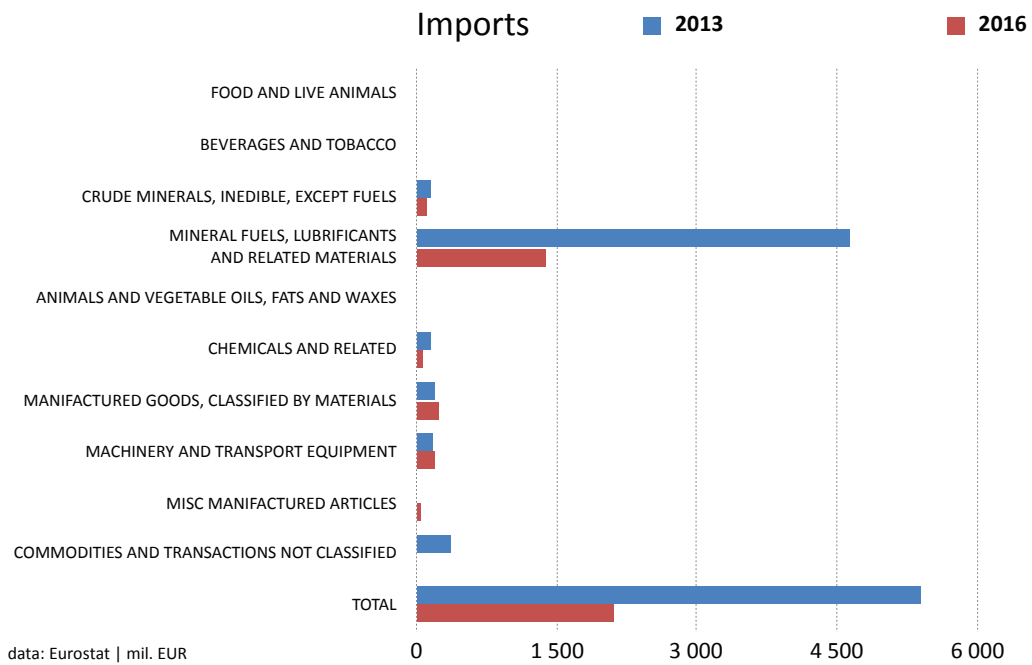
Graph 15: Slovak-Russian Imports in SITC



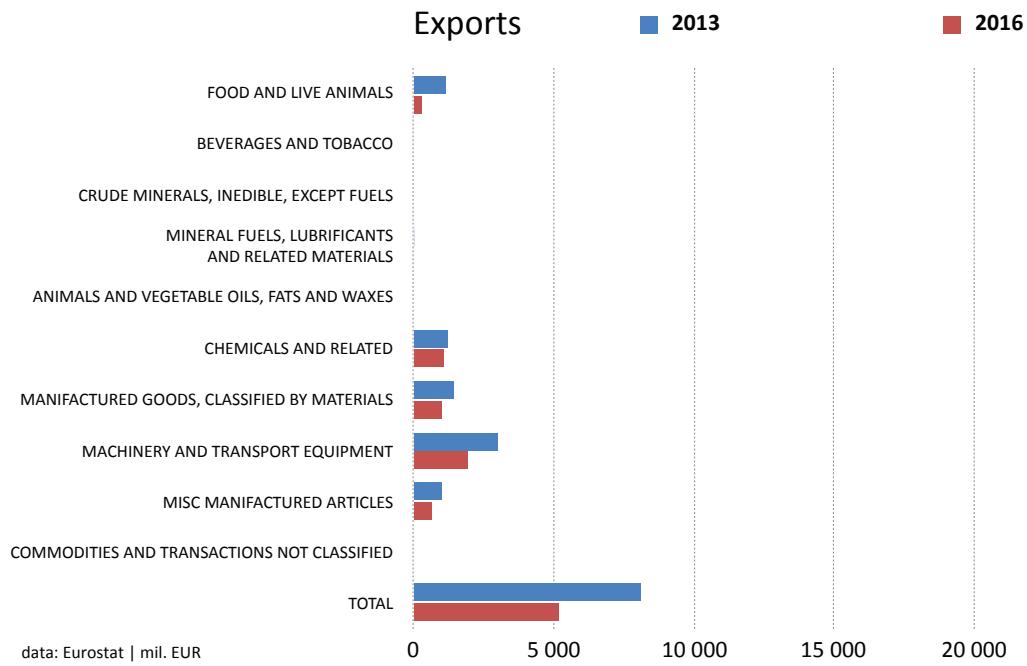
Graph 16: Czech-Russian Exports in SITC



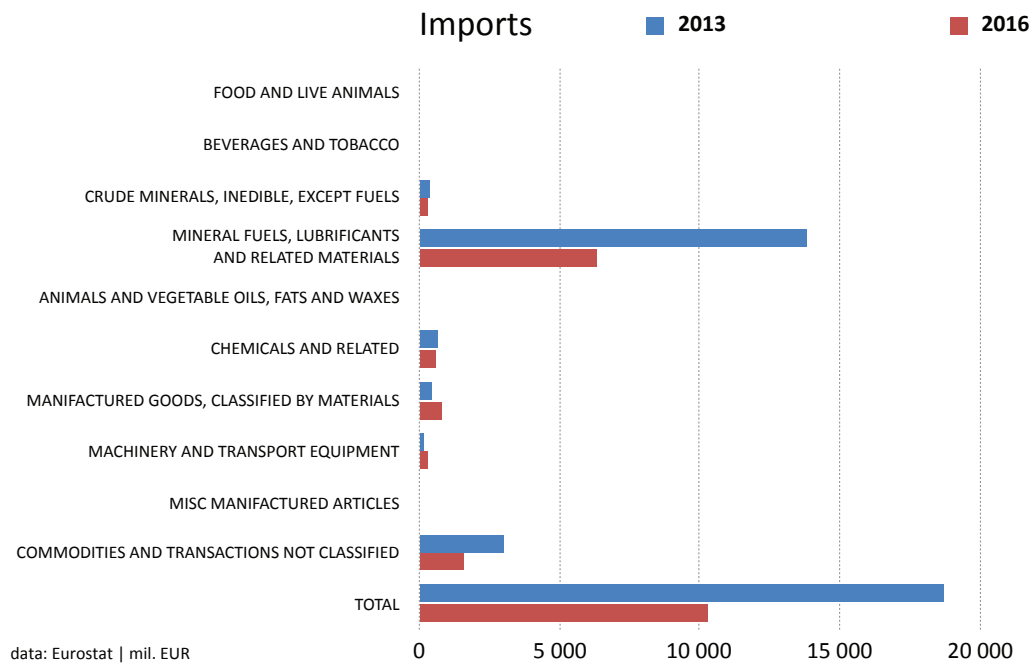
Graph 17: Czech-Russian Imports in SITC



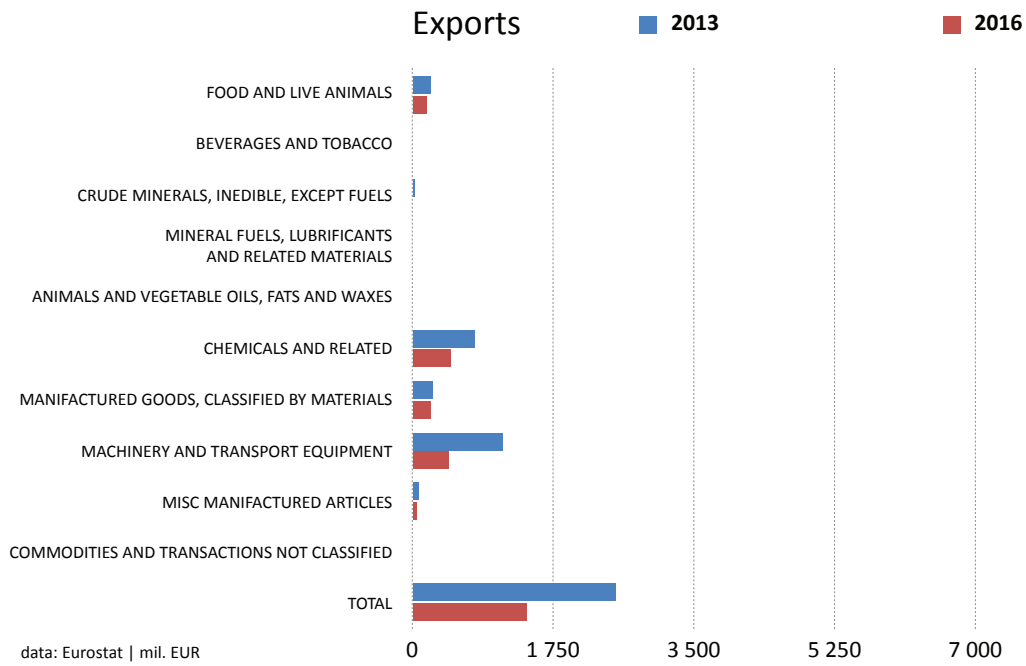
Graph 18: Polish-Russian Exports in SITC



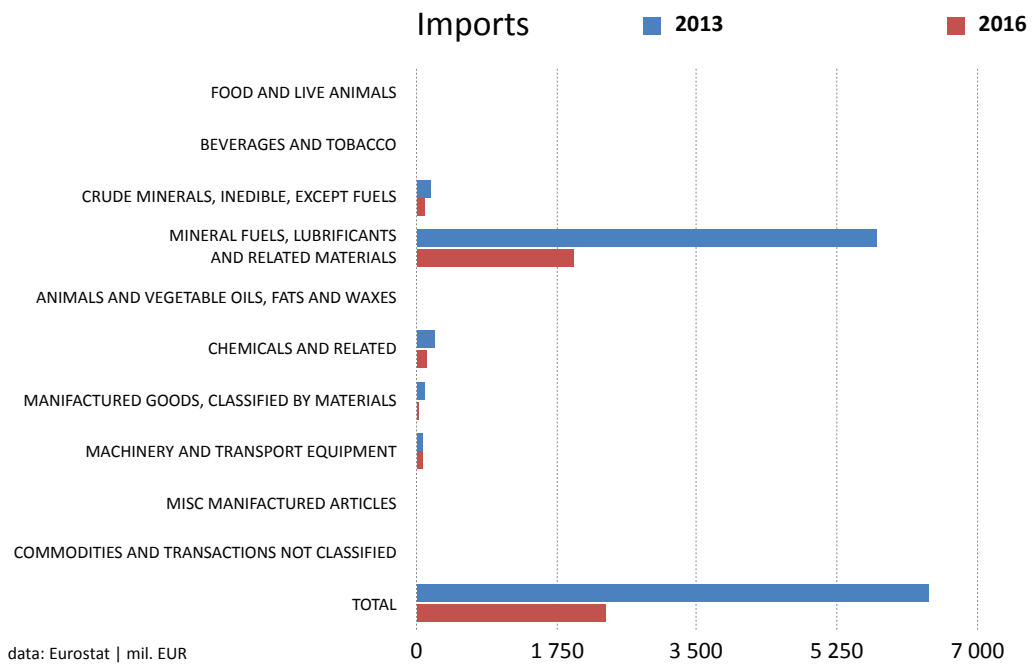
Graph 19: Polish-Russian Imports in SITC



Graph 20: Hungarian-Russian Exports in SITC



Graph 21: Hungarian-Russian Imports in SITC





Prague Security Studies Institute
Pohořelec 6, 118 00 Prague 1
Czech Republic
Tel./fax: +420 233 355 735
pssi@pssi.cz
www.pssi.cz