

## **HOW DID THE 2014 SANCTIONS AFFECT THE DUTCH-RUSSIAN TRADE RELATIONSHIP AND WHAT ARE THE FUTURE TRADE PROSPECTS BETWEEN THE TWO COUNTRIES?**

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**Abstract:** *the article analyses the impact of the 2014 sanctions on the trade relationship between Russia and the Netherlands. A statistical data and literature reviews have been chosen as the main research methods. In order to conduct a more thorough analysis and reflect it in a more accurate way to readers, the article has been divided into three logical parts: the period before sanctions, imposing sanctions and the after-sanctions period. The damage of the sanctions has been assessed and the future trade prospects have been considered.*

**Keywords:** *trade volumes, agriculture, businesses, export, import, sanctions, food embargo, foreign direct investment, political incidents.*

## **КАКИМ ОБРАЗОМ САНКЦИИ 2014 ГОДА ПОВЛИЯЛИ НА ГОЛЛАНДСКО-РОССИЙСКИЕ ТОРГОВЫЕ ОТНОШЕНИЯ И КАКОВЫ БУДУЩИЕ ПЕРСПЕКТИВЫ ТОРГОВЛИ МЕЖДУ ДВУМЯ СТРАНАМИ?**

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**Аннотация:** *в статье анализируется влияние санкций 2014 года на торговые отношения между Россией и Нидерландами. В качестве основных методов исследования были выбраны: метод анализа статистических данных и обзор литературы. С целью проведения более тщательного анализа и более точного его отражения для читателей, статья была разделена на три логические части: период до введения санкций, введение санкций и период после введения санкций. Ущерб от санкций был оценён, и будущие торговые перспективы были рассмотрены.*  
**Ключевые слова:** *объёмы торговли, сельское хозяйство, экспорт, импорт, санкции, продовольственное эмбарго, прямые иностранные инвестиции, политические конфликты.*

## ***Introduction***

Trade ties between Russia and the Netherlands have been developing for centuries and have always been characterized as peaceful and almost neighbourly. The Netherlands has been one of the largest trading partners of Russia up until 2014, when a number of serious political conflicts and incidents took place. This article will examine the trade effects of these particular political events and an attempt will be made to anticipate the future prospects of trade relations between the two nations.

### ***Brief history of the Dutch-Russian trade relations***

Before starting a discussion about the modern Dutch-Russian trade connections, a few remarks should be made about how commercial links between the two countries were originally established. According to historical documents, first trade contacts between the Russians and the Dutch already existed around 1000 A.D. [4]. Trade routes used by Dutch merchants went through Russian rivers and later were extended from the Baltic to the Black seas. However, only in 16<sup>th</sup> century trade contacts became regular and since then the Dutch were able to buy linen, furs, wheat, oats, timber, caviar and other products in Russia, sometimes reselling it to merchants from other countries.

Strengthening trade ties between Russia and the Netherlands remarkably accelerated when the Russian tsar Peter I the Great first came to the Netherlands in 1696 with the purpose of learning Dutch mastery in carpentry, shipbuilding, navigating and many other crafts. A year later, he gathered the so-called Great Embassy and travelled to Europe to bring more allies to his side in the on-going war against Turkey. The Netherlands was a strategically important point in his journey due to already existing connections and asking Dutch allies for help in a military affair seemed reasonable to Peter. Even though the Dutch state decided to hold neutrality in this issue, visiting Nicolaes Witsen, the mayor of Amsterdam back then, sparked a close commercial relationship between the two countries - the right for Dutch merchants to trade with Persia and China through Russia was obtained from the Russian tsar. This particular meeting was mutually beneficial – in exchange, many Dutch artisans helped the Russians build ships for the Peter's fleet – the first one in the Russian history [12, p. 230-244].

Almost 150 years later, in September 1846 Russia and the Netherlands signed a treaty on commerce and navigation. That treaty established 'the most-favoured-nation' principle<sup>1</sup> in commercial relations between the two states. At that point, the Netherlands was the Russia's third commercial partner after Germany and England. During this period, Dutch entrepreneurs were willing to invest large sums of capital in Russian ventures; moreover, a part of foreign

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<sup>1</sup> Most-favoured-nation principle means that a country (the recipient) receives equal trade advantages by the country granting such treatment. Examples of such trade advantages include low tariffs or high import quotas [15].

Russian gold reserve was kept in the Netherlands. By 1914, Russian foreign investments in the Netherlands amounted to 8 million gold rubles [4].

In the 20<sup>th</sup> century, the world was completely immersed by numerous political turmoils and establishing the Soviet political regime did not enhance Dutch-Russian relations, which before that used to be described as 'exceptional'. In opposite, after two World Wars and the Netherlands becoming a part of NATO, on the world's stage the Soviet Union was perceived as a threat to the global community. Ever since the Soviet ideology started influencing the economy of the state, terminating market relations, the country was distancing itself from the Netherlands and the rest of Europe. Nevertheless, by the end of the XX century, especially after the collapse of the Soviet regime, trade volumes with the Netherlands have gradually increased, mostly due to a rising need for natural resources originated in Russia.

#### ***Dutch main exports and imports***

The Netherlands has always had an open economy and, consequently, the level of trade with other countries has always been relatively high. The country has one of the highest living standards in the world due to its developed economy and social welfare system. Because of its own economic growth and that of the country's main trading partners, in 2018 the value of the exported goods reached €467 billion, making the Netherlands the 6<sup>th</sup> largest exporter worldwide. Similarly, in the same year, the value of imported goods in the country was nearly €408 billion, and the Netherlands took the 8<sup>th</sup> position on the global list of the world's largest importers [9].

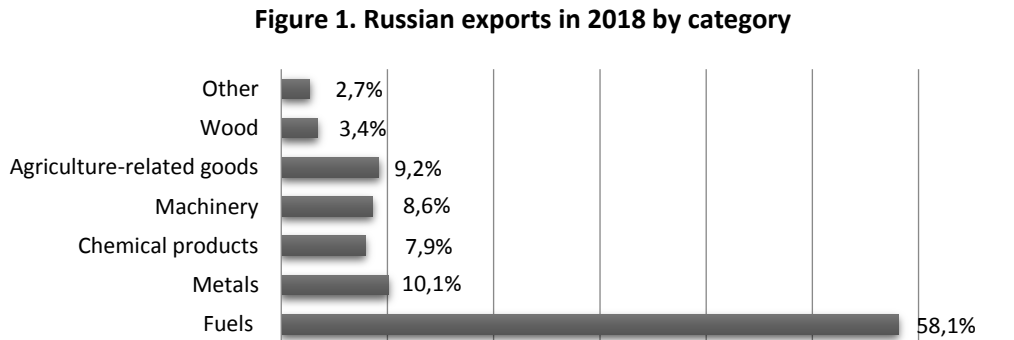
The main product categories of the Dutch export are agricultural products, machinery and equipment, chemicals and fuels. The Netherlands is also a significant exporter of commercial services thanks to its advantageous geographical location. Located in the heart of Europe, the Netherlands is considered a key distribution location, which is reflected in the annually rising trade volumes. Almost 79% of Dutch exports remain within Europe, especially Western Europe. Germany is by far the Netherlands' most significant trading partner, followed by Belgium, China, the United Kingdom, France and Russia.

The agricultural sector is one of the key sectors of the Dutch economy and, consequently, one of the main categories of Dutch exports. In 2018, it was reported that the value of agriculture-related goods sold abroad was nearly €91.7 billion, which represented 21% of the total exports [7]. The Netherlands is the largest seller of agricultural products in the EU and the second largest in the world, after the United States.

As well as being one of the main exporters, the Netherlands also imports large amounts of goods, with the main product categories being: fuel (29% of total imports), machinery (26%), food and live animals (8.6%), pharmaceuticals and electronics. Currently, the largest Dutch trade partners are: Germany (17% of total imports in 2017), Belgium (10%), China (8.5%), United Kingdom (6.9%), United States (6.6%), Russia (nearly 5%) and Italy (4.7%) [16].

### ***Russian main exports and imports***

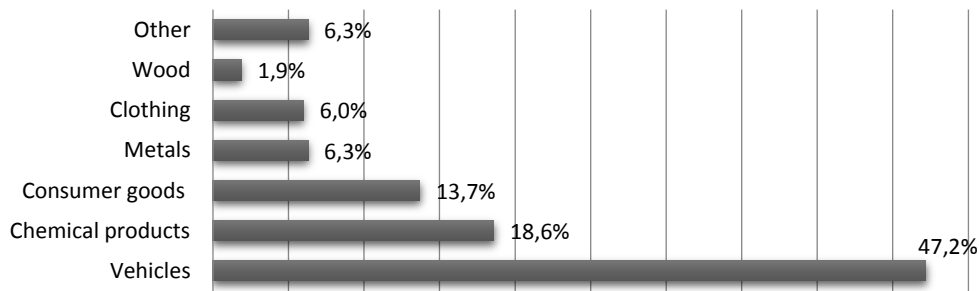
In 2017, the value of the total amount of products, exported from and imported to Russia, reached €313 billion and €198 billion, respectively. Russia's immense wealth of oil and mineral resources allows the country to export large quantities of petroleum, natural gas, and several mined minerals, which are the prime export categories. The following Figure 1 represents percentages of main Russian exports in 2018:



*Fig. 1. The structure of Russian exports in 2018. Source: Russian Ministry of Economical development*

For more than a decade, the Russian government has been seeking to diversify the country's foreign trade in order to end its dependence on oil and gas. However, the success rate of this initiative has been patchy: fuel resources continue to account for more than half of Russia's exports, although there are other Russian goods that are in demand around the world. Similarly to the Netherlands, the country invests large sums of capital in developing the agricultural industry, with exports of agriculture products accounting for more than 9% of the total Russian exports. The key agricultural product, that the authorities pin a lot of hope on in terms of its export potential, is wheat. Alexander Tkachev, the Minister of Agriculture, has repeatedly stressed that in recent years Russia has become one of the world's leading suppliers of this grain. In the 2016-2017 agricultural year, the country supplied 27.1 million tons of wheat to the world market, outstripped only by the USA with its amount equal to 28.1 million tons [17].

**Figure 2. Russian imports in 2018 by category**



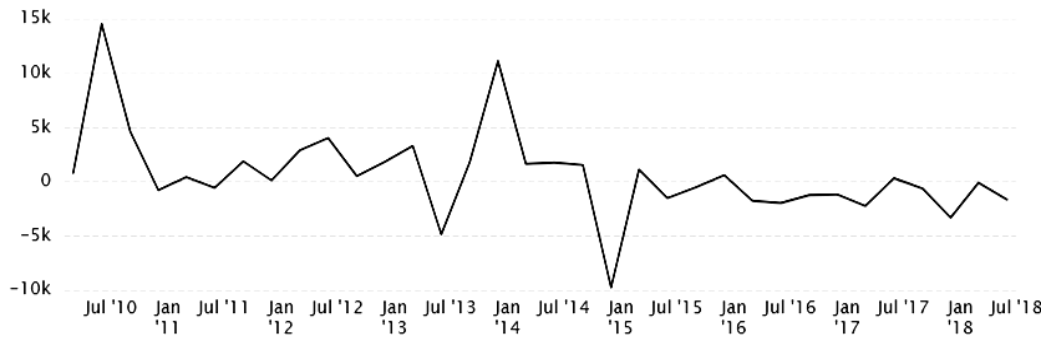
*Fig. 2. The structure of Russian imports in 2018. Source: Russian Ministry of Economical development*

Figure 2, illustrated above, represents Russian export by product category in 2018. It is obvious that nearly half of the total Russian import consists of purchases of transport vehicles and equipment, with second and third places distributed between chemical products and manufactured goods. Major trade partners of Russia are Germany, China, Turkey, the Netherlands, Poland, United States, and Finland. Moreover, Russia provides most of the needs of the CIS countries (The Commonwealth of Independent States) in oil and oil products, gas, timber, machinery and equipment. For the majority of CIS countries Russia remains the main trading partner.

#### ***Trade relations between the two countries before 2014***

Before 2014, the Netherlands and Russia were enjoying a strong and steadily improving trade and business partnership, creating a growing number of opportunities for both countries. Ever since the 1990s, the time of the collapse of both the Russian economy and the political regime, the trade relationship between the Netherlands and Russia has matured, with the two nations becoming closer trade and investment partners. The Russian market was growing and becoming more open, especially after the country's admission to the World Trade Organization in 2012.

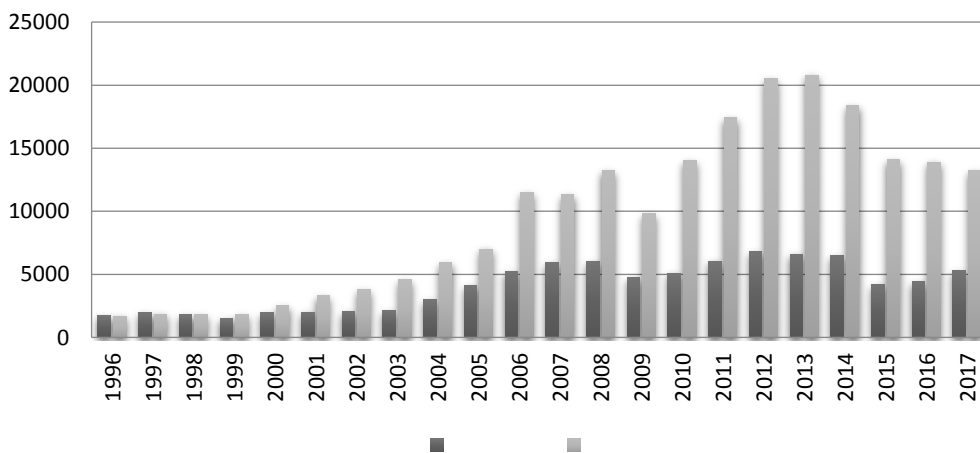
The Dutch bustling business environment has proven to be favorable for Russian investors, at the same time, Dutch investors saw the potential in Russian markets and were willing to invest significant amounts. Foreign direct investment is an important aspect of the economic relationship between the two countries. In simple words, it is an investment in the form of a controlling ownership in a business in one country by an entity based in another country. As reflected in the Figure 3, in June 2010 the amount of Dutch investments to Russia reached an all-time high of €14,5 billion, while a record low of €-9,7 billion was registered in December 2014.



*Fig. 3. The Dutch direct investment to Russia in the period between January 2010 and July 2018. Source: CEIC data*

But why would the Dutch entrepreneurs invest in Russia in the first place? The answer is in fact a combination of reasons: lower corporate taxes (in Russia it is stable - 20% since 2008 until now, and in the Netherlands it is currently 25%); also many Dutch industries have a longstanding, strong reputation in Russia, such as agri-food, horticulture and water management [8].

**Figure 4. The development of the Dutch-Russian trade between 1996-2017 (€ million)**



*Fig. 4. The development of the trade between Russia and the Netherlands between 1996-2017. Source: Statistics Netherlands (CBS)*

Figure 4 indicates a solid rise in the level of exports and imports between the Netherlands and Russia from 1996 to 2007 and from 2010 to 2013. It is remarkable that the global financial crisis of 2008-2009 hit both economies very hard, but they enjoyed quite a speedy recovery and in 2010 trade was back on track, even surpassing trade volumes before the crisis. The next discord in trade took place in 2014, which will be examined in details later in the next sections.

### ***Imposing sanctions on Russia***

2014 was a disastrous turning point not only in the Dutch-Russian relations. Numerous conflicts that led to imposing sanctions on Russia started from the Ukraine's initiative to join the European Union and, later, the situation on the Crimean peninsula that caught the world's attention. On the global stage, political actions of the Russian government were seen as explicitly hostile and threatening and many European and non-European countries questioned future cooperation with Russia.

Thus, in 2014 the decision was made to punish a number of Russian private individuals, companies and government officials by imposing sanctions on them and by freezing their accounts in European and American banks [5]. Additionally, Russian access to international financial markets was largely restricted. In response to that, the Russian state introduced countersanctions - food embargos on imports of goods from a number of EU countries, Ukraine, the United States, Canada, Norway and Australia. The economic sanctions still continue to be in use and, according to the statement issued by the European Council, will be extended until July 31<sup>st</sup>, 2019. Although, there have been several concerns voiced about sanctions and their influence on economies. In fact, several countries were reluctant to antagonize a major energy supplier for obvious reasons. An example of that was the reaction of the Hungarian Prime Minister Viktor Orban in a radio interview: 'In politics, this is called shooting oneself in the foot' [13]. Nevertheless, the next critical incident of the same year changed everything.

The Dutch government was actively supporting imposing sanctions on the Russian state after a Malaysian passenger jet (MH17) exploded over Ukrainian airspace, in which 193 Dutch passengers perished. When an investigation revealed that Russian-backed separatists were responsible for the plane crash, it became an extremely heated issue, completely deteriorating the relationship between the two nations. In the Netherlands, 78% of the population said they were in favour of sanctions, even if would hurt their own economy. A number of economists and political observes stated that the MH17 catastrophe will continue to have a negative impact on Dutch-Russian business relations for many years to come [15].

### ***The impact of sanctions on trade relations between the Netherlands and Russia***

Currently, Dutch relations with Russia remain hugely sensitive after of the MH17 crash. Many experts claim that the so-called 'boom period' in trade will never come back [2]. Figure 4, presented earlier, indicates that both Dutch exports in- and imports from Russia diminished significantly due to the developments from 2014 onwards. The value of Dutch exported goods sharply fell from €6.5 billion in 2014 to €4.2 billion (-35%) in 2015, followed by a slight increase by €200 million (+3%) in 2016 and €900 million (+18%) in 2017. When it comes to imports, the amount significantly dropped by €2.4 billion in 2014 (-12%), followed by an even greater decline

of €4.3 billion (-24%), remaining at nearly the same level in 2016 and 2017. Although the observed decline in trade volumes between the Netherlands and Russia is not only due to the sanctions, but also due to other economic factors, such as the downturn of the Russian economy, primarily caused by the falling oil price and the ensuing rouble depreciation (in 2014 Russian rouble fell 40% against euro). However, disregarding the influence of other factors, all sanctions entailed severe economic consequences for the Netherlands and the EU as a whole and Russia, given a high and steadily increasing volume of trade between these two economic areas in previous years [5].

Another way to assess the damage made by sanctions is to look at the amount of Dutch direct investment in the Russian economy (Figure 3). It is obvious that the value of accumulated Dutch direct investment in Russia has declined sharply after the MH17 crash in July 2014. Just 0.7% of Dutch direct investment abroad has landed in Russia as of end of 2016.

Nevertheless, despite all sanctions and food bans, things have gotten better as the time went, fortunately. The Netherlands is still among the top countries in terms of agriculture-related products and investment activities in the Russia. For the Netherlands Russia is the third important agricultural export market outside the EU, next to USA and China. Because Russia is keen on developing its agricultural sector, it is clearly in need of the Dutch genetic material, technology, knowledge and practical training. Thus, it is not a coincidence that cattle breeding technologies, greenhouse equipment, storage facilities and machinery, seeds and other products were outside the scope of the ban. Total export of agriculture-related goods from the Netherlands to Russia grew 10% in 2017 to over 1 billion euro [11].

#### ***«That makes for a good match» - future economic prospects of the Dutch-Russian trade relations***

Even though it seemed like commercial ties between the two nations started fading, in 2017 results of both export and import slowly started improving. Certainly, the Russians and the Dutch are still pretty far from each other on the political spectrum. However, from an economic perspective the two countries are too interconnected to lose each other, therefore it makes sense for them to cooperate and restore a pre-crisis friendly relationship.

Frans Timmermans, who was appointed as the Dutch Minister of Foreign Affairs in November 2012, has once mentioned the reason of fruitful trade relations between the Netherlands and Russia. He called it ‘a great example of supply meeting demand’ [9]. The thing is that diversification of trade and modernization of a number of sectors like agriculture, health care, infrastructure, transport is one of the main objectives of the Russian government in its struggle to achieve a competitive position on the world stage. These sectors clearly match the Netherlands’ top sectors. That is why Russia is in need of the Dutch knowledge, expertise and innovations in agriculture. At the same time, Russia’s energy resources are still vital for the Netherlands and for the EU as a whole.



Therefore, both nations would benefit from a strong commercial partnership, which would allow them to share common ambitions and goals.

Due to rising population and climate change, there is a steadily rising demand for healthy food, which means that the agricultural industry will be in need of large investments and developments, therefore both Russia and the Netherlands are very likely to experience rises in export volumes. Although, the Netherlands is a few steps further in developing its agricultural sector. The country is committed to developing smart farming technologies in order to boost its export position worldwide. For instance, there have been techniques introduced to cultivate crops on salty soils, which will very likely be of a high demand in the future, amid climate changes [7].

Another target of future possible commitment is the healthcare sector. In Russia, the industry is new and it keeps developing quickly, and Russia is deliberately turning to foreign partners like the Netherlands for help. Dutch businesses can also invest funds to the development of regional airports and aviation safety, which is, again, a source of significant profits.

In fact, there are unlimited prospects for Russian-Dutch cooperation. Before sanctions were imposed, Royal Dutch Shell had planned to work with Russian Gazprom on developing shale fields and exploring the Russian Arctic. Sanctions on exports of the oil industry technologies and the low price of crude itself make those plans unfeasible, however it could be another contribution to exports and source of big investments in a few years, after sanctions no longer have an effect [2]. Regardless of attempts of the Russian government to diversify its exports, there is still a big chance that Russia will remain the major oil and gas supplier for the upcoming decades, which will ensure that the Netherlands will have a constant source of commodities import, especially after closing down the gas fields in Groningen by 2030 due to earthquakes [1].

### ***Conclusion***

To conclude, it is crucial to acknowledge the fact that the current Dutch-Russian is in desperate need of improvement. No surprise that it will take several years, or possibly decades, for the relations to become warm again. In the past few years, geopolitical issues clearly have been having a tremendous impact on economies and trade relations between the two countries. The biggest change in trade relations between Russia and the Netherlands is most likely to come after 2024 – the year when Vladimir Putin will step down as the Russian President. Because his authoritarian views strongly contradict with Dutch democratic values, trade and economic relations between Russia and one of the most competitive and developed economies in the world turned frosty.

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