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## MODERN REALITIES OF INTERACTION BETWEEN RUSSIA AND THE EU COMPANIES

The article covers objective and subjective approaches to the determination of the nature of relations between the integration companies of Russia and the EU. The authors focus on the natural economic phenomena in the behaviour of economic entities in terms of political uncertainty, including those relating to the situation in Ukraine. The factors are analysed and the status and prospects of corporate integration between Russia and the EU are assessed on the basis of SWOT-analysis.

**Keywords:** economic interaction, war of sanctions, corporate integration, business community, market barriers, trade partnership.

**Formulation of the problem.** The European Union (EU) has always been and remains the largest trading partner of Russia, a major source of foreign direct investment and technology.

The economic cooperation between Russia and the EU have traditionally regarded by researchers at the macro level, while focusing on energy issues. The political component comes to the fore and is being touted as the dominant economic relations of the parties. Place and role of individual companies, their corporate interests and opportunities of interaction loss of sight.

However, the current political crisis near the Ukraine, which affected the relations between Russia and the EU fundamentally, makes it possible to observe the actual location of companies and their integration ties within the system of relations between Russia and the EU. During the most acute phase of the crisis is corporate heads and representatives of business associations opposed the curtailing relations and attempts to mitigate the effects used political differences for economic cooperation [1].

Underestimating the role of specific companies and the business community at large in building a stable, predictable and mutually beneficial relations between Russia and the EU rotating lost benefits and opportunities for both parties, further escalating the political situation and the final loss of the structural foundations of the relationship.

**Analysis of recent research and publications.** A significant contribution to the study of the issues of interaction and corporate integration between Russian companies and the EU was carried out by such foreign scientists as Chaban N., Dickel R., Dreger C., Elgström O., Entin M., Fischer P., Ilyin E., Kalotay K., Kuznetsov A., Nevskaja A., Tretyakov P., Ulbricht D., Vinogradova E., Westphal K. and others. Questions of the essence of the relationship between Russia and the EU and their impact on the Ukrainian economy have devoted a lot of domestic scientists to their work, in particular: Korniv's'ka V., Maksy'menko I., Shny'r'kov O., Yaremenko V., Zadorozhnyj O.

**The aim of the article** is to study the essence and peculiarities of interaction between Russian and EU companies in the present. Also, it is necessary to determine the perspective directions for the further development of integration cooperation between Russia and the EU, taking into account the factors of external and internal influence, in order to clarify the content of the macroeconomic policy of Ukraine.

**Presentation of the main material of the study.** The existing preconditions could not lead to that economic cooperation between Russia and the EU

has an important role for both parties. Statistic data testify to the considerable volume and steady growth of economic cooperation in the period prior to the political crisis in Russia and the EU. In particular, the EU is the largest trading partner of Russia. Its share in Russian exports almost throughout the pre-crisis decade exceeded 50%, while imports amounted to 40% and above (see. Table 1).

Almost all major countries-investors in the Russian economy are members of the EU. The top five largest investors in the amount of accumulated direct investment at the beginning of 2016 included: Cyprus (86.3 billion. Dollars. USA); Netherlands (32.4 billion. Dollars. USA); Germany (13.5 bn. Dollars. USA); France (9.9 bn. Dollars. USA); Switzerland (8.6 bn. Dollars. USA). [2]

In analyzing the geography of investors in the Russian economy should be mindful of the role of Cyprus and the Netherlands both traditional transshipment bases for investments in Russia as citizens of country (in this case the so-called "traveling in circles" investments) and for investors from third countries. As the largest "tax havens", these countries (as well as Austria, Belgium and Luxembourg – to a lesser extent) accumulate substantial flows both incoming and outgoing investments in our country, being the main points of their destination.

On the beginning of 2016 the main recipient countries of direct Russian investments were as follows (the data on accumulated investments): Cyprus (104.5 billion US dollars); The Netherlands (\$ 57.5 billion); Austria (\$ 21.1 billion); Switzerland (\$ 16.5 billion), Germany (\$ 10.9 billion) [2]

Experts also noted that over 40% of foreign assets 20 leading Russian non-financial transnational corporations have on the EU [4]. The theoretical question about the interaction of corporate integration and "Integration from above" was a real reflection of the international crisis during in 2014 around Ukraine. Formal integration processes before moving difficult, were virtually paralyzed. Experts characterize the relations between Russia and the EU, not even as a "limited partnership", but as a "limited interaction" [5]. The current situation provides opportunities for empirical analysis of the influence of politically determined decisions on business interests and the course of corporate integration development in all its manifestations: export-import operations, mutual direct investments, strategic alliances, etc.

Practical examples of exacerbation of conflicts of business interests and political decisions of governments took place earlier. The crisis of "Bronze Night" in 2007 in Estonia clearly illustrates this interconnection. The volume of business losses

Table 1

## The commodity turnover between Russia and the EU (bln. USD)

Year	Turnover			Export			Import		
	€C, bn. USD	Growth rates, %	The share of foreign trade in Russia, %	€C, bn. USD	Growth rates, %	Share in exports Russia, %	€C, bn. USD	Growth rates, %	Share in import Russia, %
2011	394,0	28,3	47,9	266,5	26,0	51,6	127,5	33,5	41,7
2012	410,3	4,1	48,4	277,9	4,2	52,7	132,3	3,7	41,4
2013	417,7	1,9	49,0	283,4	2,1	53,5	134,2	1,3	41,7
2014	377,3	-9,7	48,2	258,8	-8,7	52,1	118,5	-11,7	41,4
2015	235,8	-37,6	44,8	165,6	-36	48,2	70,2	-40,1	38,4
2016	200,4	-15	42,8	130,5	-21,2	45,7	69,9	-0,5	38,5

Source: formed by the author for [3]

from the situation has been estimated at 320 million euros, without taking into account indirect losses and lost opportunities [6].

The situation with the introduction of sanctions in 2014 largely repeated the logic of these events. The crisis and the actual freeze of the dialogue between Russia and the EU, as well as the introduction of economic sanctions on both sides affected all types of corporate integration.

Russian companies that are not affected by sectoral sanctions continued to expand on European markets. Investment cooperation was also subjected to sanctions and this effect was not as straightforward as in trade. An example of a change in flows of mutual foreign direct investment between Russia and the EU allows you to record the correlation of the dynamics of political processes, changes in the general economic situation and business behavior in such a situation.

Some experts assume [7] that the effect of sanctions will emerge on investment projects of Russian companies in the EU and will affect not only large corporations of raw material orientation with state participation, but also projects of predominantly small firms based on technological cooperation.

In general, are the following effects of the "war of sanctions" and the deterioration of relations between Russia and the EU, accompanied by a sharp deterioration in economic development, integration interaction for companies from Russia and the EU. It should be noted at the outset that some of them affected the integration of the parties' companies positively.

- As a result of the ban on the import of a number of names of products from the EU, some companies were forced to increase sharply localized or manufacture the goods in Russia. Thus, Finnish "Valio" in late 2014 expanded the range of products produced in Russia (in particular, the company leased capacity for oil production). Increased range of products made in Russia and the German "Ehrmann" [8].

- One of the effects of the crisis 2014-2015, including the recession in the Russian economy and the devaluation of the national currency, the emergence of another component integration interaction of Russia and EU companies. This is the set up and growth of exports to other countries of products made on Russian exchanges. As an example the Italian company "Candy", supplying household appliances made in its factory in Kirov, in Europe, Japan, Australia and New Zealand. "BSH Hausgerate Gmb" (joint venture "Bosch" and "Siemens"), which still has exported its products to Russian enterprises in third countries, in 2015 increased almost twice this export [9].

- A special place among the consequences of "sanation wars" take joint projects and occasional examples of cooperation of Russian and European companies in other countries. In March 2015 the British "BP" and "LetterOne", belonging to the Russians, signed an agreement on joint investment (12 billion dollars) in the development of gas fields in Egypt (in May structures M. Friedman decided to sell part of its share of the UK partner) [10]. In June 2014 "Lukoil" bought from the British "Bowleven Rees" 37% participation in the project on the development of oil offshore Cameroon [11].

- Another variant forms of cooperation change companies is the result of cooler relations political parties - the use by European companies of investment funds in other countries as areas for investment in the Russian economy. In particular, China plans to use the funds to invest about 15 billion USD in Russian oil and gas projects (primarily "Yamal-LNG") announced the French "Total" [12].

- Finally, an important and direct result of the sanctions and the deteriorating economic outlook for Russia was the intensification of corporate migration. This refers to physical removal and curtailment of activity in Russia, and no ordinary remain office with the continued de facto as the functioning of the Russian TOK (TNK) (a striking example of this kind - "VimpelCom", registered in Amsterdam).

Thus, in recent years its activities transferred to the EU by companies such as "GameInsight" (development and production of computer games) and "Toonbox" (animation studio). The first moved to Vilnius, the second - to Cyprus. Eastern Europe seemed more attractive place to do business in some international corporations that had previously office in Russia.

In November 2014 "Microsoft" announced the closure of operations in Russia and the transfer of office and part of workers to Prague. Among the examples return only "Gazprom" and "Gazpromneft", which was transferred in 2014 and 2015 the trading its centers in St. Petersburg from London and Vienna, respectively. The reason was fear of freezing of accounts and seizure of proceeds.

The above data indicate the controversial impact of political events on corporate integration. If the general scope of interaction between business remained approximately the same as before - frozen or deferred was only a small part of projects that come under the direct sanction - that its structure and direction of change. Russian companies seeking to transfer part of its assets (and sometimes the whole business) in the EU for the insurance during the crisis in the economy. Available data demonstrate a closer relationship between government policy

decisions and behavior of economic actors than most experts thought before the crisis in the first months of development.

The presence of certain companies successful integration interaction of Russia and the EU, as well as the challenges facing the process, make urgent question about the prospects and possible future directions of its development. The importance of that is cooperation with EU companies for many Russian companies and for the economy as a whole, making the task of finding new prospects of development of this process is extremely important [13].

The object of our SWOT-analysis supports the integration interaction of companies from Russia and the EU, an action companies of both parties at all levels of corporate integration to achieve synergies and use of their concerted efforts. The analysis allowed to identify a number of key characteristics inherent integration interaction of companies from Russia and the EU as well as external factors affecting it (see. Table 2).

The estimates allow identifying nodal factors and their combinations (see Table 3) to indicate the future prospects for corporate integration and the development of recommendations.

Line of corporate integration in the framework of bilateral relations between Russia and the EU is still only area of possible success because the strengths of integration interaction (in this context, in addition to lobbying business can add formed stable formats Cooperation largest businesses) are reduced to “no” by political tensions and sanctioning wars and negative situation in the Russian economy. Achieving a breakthrough possible in the event of significant changes in the political sphere and at the “formal” integration, coupled with the failure of a number of major players to resist political pressure power is the terminator integration “from below”.

On very likely or even inevitable to overcome this political “terminator” in the long run eloquent plans the companies stated in their development strategies, missions and values. Thus, german “Siemens” finds global presence as the main priority (especially in regions with the highest economic growth), strives to effectively allocate resources. For 2020 the company plans to ensure that over 30% of the assets were located outside Germany. Similar objectives pursued by other major European concerns [14].

None of them points to the need to consider the political situation as a key value strategy.

**Conclusions.** Output of the features of economic development and the sectoral structure of the economy of the EU and Russia, analyzed using basic theories of internationalization, give reason to believe that the convergence of their economies, the growth of interaction between businesses and interpenetration of markets – are the natural scenario of relations between the parties. Between the early 2000s and up to the crisis over Ukraine in 2014 the political dialogue between Russia and the EU grew steadily, and the official goal – convergence and integration of the economies in some areas – announced clearly.

The analysis of statistics and empirical data on transactions of companies from Russia and the EU showed that during a politically neutral environment in relations between Russia and the EU corporations were the main subjects of the economic integration of the parties, despite the complexity of the political dialogue and virtually no improvements in terms of bilateral trade and investment, economic cooperation indicators grew.

External factors impose a serious impact on the intensity and format of interaction between companies. And if the asymmetry and imperfection dialogue between business and government in general, reduce the efficiency of the business structures of Russia and the EU on the territory of each other and become a factor that hinders corporate integration, the crisis in the political relations of the parties leads to a change in the formats and direction of interaction.

There are three main effects of the “war of sanctions” on corporate integration:

- Clotting most “loud” demonstration projects, primarily in the energy sector, or their significant reduction;

- Search for new formats of interaction (eg, localization of production instead of commercial contracts for the supply of prohibited to import products, implementation of joint projects in third countries, investments in Russian projects through investment funds in third countries);

- The desire of a number of companies to leave the Russian jurisdiction activation processes of corporate migration.

Table 2

**SWOT analysis: integration interaction of Russian and EU companies**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>– Strong communication and cooperation formats leading market players;</li> <li>– Resistance phenomena relations of the parties;</li> <li>– Work with business interests.</li> </ul>	<ul style="list-style-type: none"> <li>– The advantage of big players;</li> <li>– Lack of awareness of management;</li> <li>– Insufficient to resist political pressure power;</li> <li>– Concentration of economic relations in limited regions;</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>– Geographical proximity;</li> <li>– Volume markets (including through efforts to create EAEC);</li> <li>– Industry complementarity.</li> </ul>	<ul style="list-style-type: none"> <li>– Imperfect institutions;</li> <li>– Political tensions;</li> <li>– Economic sanctions, trade wars;</li> <li>– The negative outlook for the Russian economy.</li> </ul>

Source: author formed

Table 3

**SWOT analysis: integration interaction of Russian and EU companies. Continuation.**

<b>Perspective directions (possibilities + power)</b>	<b>Directions of possible breakthrough (threats+ force)</b>
Volumetric markets + work with lobbying business	Economic sanctions + work with lobbying business
<b>Areas requiring special attention (possibility + weaknesses)</b>	<b>development limitation (threat + weaknesses)</b>
Volumetric markets + inability to resist political pressure power	Economic sanctions + inability to resist political pressure power

Source: author formed

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**СУЧАСНІ РЕАЛІЇ ВЗАЄМОДІЇ КОМПАНІЙ РОСІЇ ТА ЄС****Резюме**

У статті обґрунтовано об'єктивні та суб'єктивні підходи до визначення природи інтеграційних взаємовідносин між компаніями Росії та ЄС. Авторами акцентується увага на природних економічних явищах у поведінці суб'єктів господарювання в умовах політичної невизначеності, у тому числі пов'язаної із ситуацією в Україні. Проаналізовано фактори та оцінено стан і перспективи корпоративної інтеграції між Росією та ЄС на сьогоднішній момент на основі проведення SWOT-аналізу.

**Ключові слова:** економічна взаємодія, війна санкцій, корпоративна інтеграція, бізнес-співтовариство, ринкові бар'єри, торговельне партнерство.

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В статье обоснованы объективные и субъективные подходы к определению природы интеграционных взаимоотношений между компаниями России и ЕС. Авторами акцентируется внимание на естественных экономических явлениях в поведении субъектов хозяйствования в условиях политической неопределенности, в том числе связанной с ситуацией в Украине. Проанализированы факторы и оценено состояние и перспективы корпоративной интеграции между Россией и ЕС на сегодняшний момент на основе проведения SWOT-анализа.

**Ключевые слова:** экономическое взаимодействие, война санкций, корпоративная интеграция, бизнес-сообщество, рыночные барьеры, торговое партнерство.