

Russian sanctions: 130,000 European jobs at stake

The European Commission has made €125m available to compensate EU producers of fruit and perishable vegetables for the effects of the Russian ban on Western food products. But the potential effects of the Russian embargo on imports of Western food go far beyond the effects on these products. For the EU the total effect potentially adds up to a yearly production loss of \$6.7bn. This would put 130,000 jobs at stake. Germany would suffer the biggest production loss in euros and in Poland most jobs are at stake. If we take into account the differences in the size of the economies, the Baltic states would be hit hardest.

Importance of demand from Russia varies per country

Production in Western countries related to total Russian import demand consists of direct exports and intermediate contributions to exports to Russia. These intermediate contributions concern Western companies that supply natural resources, intermediate products and services to other domestic or foreign companies that export to Russia. Examples are companies in sectors such as the wholesale trade and transport. New methods allow us to calculate per country or region, not only the value of direct exports of the various sectors to Russia but also the value of these indirect contributions to exports to Russia.¹

These calculations show that total Russian imports from the West are responsible for \$115bn of production in the EU and 1.9m jobs. This is significantly more than in the US where only \$16bn of production and 132,000 jobs are related to demand from Russia (see table 1).

Within the EU, German companies account for more than a quarter of EU-production related to Russian demand. Italy comes in second, followed by France, UK and Poland (see table 1).

Looking at employment within the EU that is related to total import demand from Russia, Germany again ranks first, with 363,000 jobs. Poland comes close, with 305,000 jobs. This catches the eye because Russia-related production in Poland is four times as small as in Germany. Italy, UK and France, with the number of related jobs ranging from roughly 100,000 to 200,000, come in after Poland although they have more production related to Russian demand (see tables 1 and 2). The high amount for Poland is mainly due to relatively low labour productivity in Poland.²

¹ This method to calculate the value added that is created by trade is based on recent research of the Rijks Universiteit Groningen. See, among others, *Timmer, M.P. (ed) (2012) The World Input-Output Database (WIOD): Contents, Sources and Methods, WIOD Working Paper No.10, available at www.wiod.org.*

² Composition effects of Polish direct and indirect exports to Russia (overrepresentation of sectors that use relatively much labor) is also a possible explanation. The data don't allow to check for that, but there

Taking into account the differences in size of the European economies, the Baltic states are most closely connected to Russia. Lithuania's exports to Russia make up 3.7% of GDP, twice as much as in Poland and almost three times as much as in Germany (table 1). Also the share of jobs in total domestic employment related to Russian demand is highest in the Baltic states. Of all jobs in Estonia, 3.3% is related to Russian demand and in Lithuania only marginally less (see table 1).

The effect of the Russian boycott

The ban on Western food products puts downward pressure on Western exports to Russia - directly through the loss of food exports to Russia and indirectly through Western companies that are suppliers of inputs and services to companies that export food (products) directly to Russia.

In the US \$1.3bn of production is linked to Russian demand for food (products). That is 8% of total American production linked to Russian demand and 0.01% of US GDP. The 12,000 American jobs that are linked to Russian food demand are at stake if the ban continues for a prolonged period of time.

Table 1: importance of Russian demand per country*

Country	Total value added (\$ min)	Total value added (% of GDP)	Total jobs (x1000)	jobs % share of domestic employment
Germany	32845	1.0	363	0.9
US	16071	0.1	132	0.1
Italy	15806	0.8	221	0.9
France	9576	0.4	101	0.4
UK	8651	0.4	119	0.4
Poland	8248	1.8	305	1.9
Spain	4902	0.4	71	0.4
Austria	3002	0.8	31	0.7
Belgium	2960	0.6	28	0.6
Finland	2910	1.3	30	1.2
Lithuania	1404	3.7	40	3.2
Estonia	603	3.1	21	3.3
Latvia	533	2.1	19	2.1
EU 27	114975	0.7	1863	0.8

*Data until 2012; Source: WIOD, RUG

For the EU the potential effect is much bigger: \$6.7bn of production is linked to Russian demand for (food) products. That is 6% of total European production linked to Russian demand and 0.04% of EU GDP (table 1). In the EU 130,000 jobs are in danger because they depend on Russian food demand. This accounts for 0.06% of all jobs in the European economy, six times as much as the share in total US employment hit by the Russian sanctions.

Within Europe Germany loses most production, with a de-

are some anecdotal indications for this.

cline of output of \$1.3bn. Poland's output loss is only one third of that, but it is hurt most in terms of job losses: 23,000. In Germany 21,000 jobs are at stake and France, Spain and Italy run the risk of losing around 10,000 jobs.

Taking the different sizes of the economies into account, the Baltic states are hit the hardest. Lithuania suffers a loss of 11% of total Russian demand for its products and services which translates into 0.4% GDP, ten times as big as the EU-average. The effect for Estonia is about the same magnitude and for Latvia about half (see table 2).

Also in relation to total employment the jobs effect is by far the biggest in the Baltic states, with Lithuania hit hardest again (see table 2).

that don't export to Russia suffer just as much from the excess supply and lower market prices that arise from the fall off in Russian demand. Secondly the crisis in Eastern-Ukraine has confronted various sectors with a decline of exports to Ukraine. Thirdly, the possible downward effect of the geopolitical crisis on consumer- and producer confidence, could harm the economy. On the other hand food producers could find new markets, which would dampen the negative economic effects. Secondly, consumers will benefit from lower food prices. This stimulates purchasing power of households what could foster private consumption. On balance the additional effects seem to make the above calculations a conservative estimate of the economic damage that can be caused by the crisis in Ukraine.

Table 2: Effect of Russian boycott on production and jobs*

Country	Value added lost	Value added lost	Jobs lost	jobs lost
	(\$ mln)	% of GDP	(x1000)	% of total jobs
Poland	429	0.10	23	0.14
Germany	1250	0.04	21	0.05
US	1278	0.01	12	0.01
France	869	0.03	11	0.04
Spain	626	0.05	10	0.05
Italy	591	0.03	9	0.04
UK	415	0.02	6	0.02
Lithuania	154	0.40	5	0.42
Finland	273	0.12	3	0.13
Belgium	220	0.05	3	0.06
Estonia	68	0.35	2	0.39
Latvia	52	0.20	2	0.25
Austria	114	0.03	2	0.04
EU 27	6697	0.04	130	0.06

*Data until 2012; Source: WIOD, RUG

Other effects of the crisis

The economic effects of the crisis in Ukraine go beyond the direct and indirect effects that are measured here using the World Input Output Data. Firstly, Western food producers

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