

Prospects for Economic Relations between Lithuania and Russia

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Foreign trade

During the first eight years of independent Lithuania, Russia was our first foreign trade partner. Russia's share of Lithuanian imports and exports is presented in the diagram. Since the middle of 1998, there has been a significant slump in the foreign trade with Russia, especially in exports, nevertheless, Russia still retains the first place in the total volume of Lithuanian imports. In the general foreign trade turnover, Russia accounts for 15 percent, i.e. it ranks second after Germany (18 percent).

In the course of two years, exports to Russia decreased by 3.5 times: from 21 percent in 1997 to 6.5 percent in 1999. In 2000 trade with Russia became slightly more active, though only in the sphere of imports, which during the last years made up 27 percent from the total commodity import to Lithuania. The exports, meanwhile, amount only to 7 percent. This is lower than the export to Latvia (15 percent), Germany (15 percent) and the United Kingdom (7 percent). The significant decrease in exports to Russia produced a negative effect on the total exports of Lithuania and increased the foreign trade deficit which, according to preliminary data, amounted to about 6 billion litas in 2000.

The difficulties with the exports to Russia were also conditioned by the fall of the rouble exchange rate against the dollar. In this respect, the pegging of the Lithuanian currency – litas – to the USD is not a favorable factor in the development of exports to Russia and especially to the euro-zone countries.

Due to the unreliability of payments during the period of crisis in Russia, a considerable number of Lithuanian enterprises lost their assets or the possibility to export, which brought about their temporary withdrawal from the markets of Russia and the CIS. In 2000 there was the beginning of a renewed interest in these markets.

In the commodity structure of imports, there mineral products dominate (72 percent), including energy resources. The imports from Russia also include plastics and articles thereof, raw hides and skins, leather, wood and articles of wood, metals, machinery and mechanical appliances.

Within the export structure, the main groups of commodities include: live animals and animal products (12 percent), vegetable products (8.5 percent), mineral and chemical products, textile articles (8 percent), machinery and mechanical appliances (17 percent), transport vehicles, etc. The import from Russia to Lithuania exceeds the volume of export by several times, which is explained by the import of energy resources (oil, gas) by pipelines that produce an advantage over other imports.

The trade between Lithuania and Russia is based on the Agreement on Trade and Economic Relations signed in Vilnius on November 18, 1993. By this Agreement the countries accorded each other the most-favored-nation treatment. In practice, the import-export conditions, especially in the sphere of customs policy, still fail to satisfy the businessmen of both countries and require essential revision. Import tariffs on Lithuanian commodities, which amount to as much as 30 percent and significantly exceed customs tariffs on the import of the same good from the EU countries to Russia, make the Lithuanian goods less competitive from the point of view of prices. This encourages

commercial enterprises from the EU countries to buy products (e.g. meat, milk powder, etc.) in Lithuania and sell them at a profit in Russia.

During the period when the Conservative Party was in power, the representatives of the Governments of both countries, who co-operate in the framework of the bilateral Commission for Commercial and Economic, Scientific and Technological, Humanitarian and Cultural Cooperation, regrettably, failed to achieve any fundamental accomplishments. A contrary effect on the strengthening of economic and political relations was made in the autumn of 2000 by the Law on the Recovery of Damages Caused by the USSR Occupation passed before the elections to the Seimas. This obstructed the progress of the relationship, especially the ratification of the Treaty between the Republic of Lithuania and the Russian Federation on the State Border.

After the elections to the Seimas, in the beginning of December 2000, a joint delegation of Lithuanian Seimas members, representatives from the Ministry of Economics and businessmen visited Russia (I was the head of the Seimas delegation) and, together with Russian colleagues, succeeded in defining the issues to be resolved, especially those in the field of economics.

It is believed that the Russian Duma will finally ratify the Treaty on the State Border in its spring session of 2001. At the same time it is necessary to seek the ratification of the agreements on the avoidance of double taxation on income and capital, the prevention of fiscal violations and on the encouragement and reciprocal protection of investments. That might have a fundamental impetus on the investment agility of the partners, implementation of joint projects and mutual confidence which plays a crucial role in the development of economic relationship.

In February 2001, a new meeting is to be conveyed in Vilnius for the purpose of continuing the commenced dialogue. The new Seimas and its political majority are trying to achieve greater balance between the process of integration into the EU and a more active cooperation with Russia, which ought to bring profitable results.

Transit

Transit is one of the most important areas of cooperation between the two countries. Cargoes flowing through Klaipėda to Moscow and back account for nearly half of the total volume of the cargoes carried through this port (which is equal to nearly 16 million tons/year). A decrease in the amount of cargoes, as a consequence of the economic crisis in Russia, made a significant impact on the load of the Lithuanian transport system. In 2000 the volume of carriage started growing again, including that in the railway transport where it increased by about 8 percent.

The competition between the ports of Kaliningrad and Klaipėda in the area of transit resulted in the introduction from the part of both Lithuania and Russia notable differentiation in the tariffs on the cargo carried by railways. Lithuania is applying increased tariffs on the cargoes going in the Kaliningrad direction, while Russia reciprocates on the Klaipėda route. The difference in the latter is more than twofold. The protectionism in respect of national ports interferes with the adoption of solutions conforming to the market principles and artificially channels the flow of cargoes towards a port which is, in this particular case, not the most advantageous in all respects (geography, quality of service, length of transportation). Ultimately, it is business and this

particular region of the Baltic Sea as a whole which are losing out. Therefore, the harmonization of the tariffs on transportation between both countries has lately become the major problem in the sphere of transit, which ought to be resolved at the governmental level on the basis of political good will and mutual understanding. The new context of political relations ought to expedite the resolution of this issue at the beginning of 2001.

The Kaliningrad Oblast is a distinctive feature in the context of the relationships between Lithuania and Russia. Lithuania is linked with this district by neighborly relations, also by far more active economic and cultural cooperation in the Baltic region than with the rest of Russia. A visa-free regime is still applied between the Kaliningrad Oblast and Lithuania, which facilitates free movement of goods and persons. Lithuanian businessmen rank third (after Germany and Poland) among the partners of the Kaliningrad Oblast according to their activities in trade and investments. Lithuania maintains a favorable attitude towards the integration of the Kaliningrad Oblast into the Baltic Sea Region and its participation in the positive processes of European integration.

The energy sector

This has always been the key sector in the economic relations between Lithuania and Russia:

First, the energy resources, including oil and gas, which dominate Lithuanian exports and the specifics of the power system shaped during the Soviet period (the great productive capacity of power stations, their connecting infrastructure, the possibility for cheaper transportation by oil and gas mains, etc.) determine the importance and continuity of relationship in the energy sector. The import of oil, the more so that of gas, from other countries is less efficient from the economic point of view in comparison with the import of these resources from Russia.

The Mažeikiai oil refinery “Mažeikių Nafta”, with an annual processing capacity of 13 million tons, was built for the requirements of the region based on the supply of crude oil from Russia. After the sale of a third of the shares of this refinery to the company Williams International and the subsequent acquisition by the latter of the functions of administration and commercial operation, it became difficult to secure agreements with Russian companies on long-term, sustained and sufficient supplies of crude oil. During the last years, “Mažeikių Nafta” has been working at less than half of its producing capacity with the resultant hundreds of millions dollars annual loss, which has to be compensated at the expense of Lithuania. Therefore, the most rational solution might be to invite Russian companies to purchase part of “Mažeikių Nafta” shares and agree with them on a long-term supply of crude oil. “Mažeikių Nafta” is the most modern enterprise of this kind on the scale of the former Soviet Republics, therefore, there is no shortage of markets for its production both in the countries of Eastern Europe and elsewhere.

The privatization of the gas sector of the economy introduces a new aspect in the dialogue for partnership with Russia in this area. Russian natural gas is used as raw material for producing fertilizers and for technological needs of the national economy as well as for domestic needs of consumers. Besides, it is the principal fuel for the Lithuanian thermal electricity plants which at present generate up to 20 percent of the

total electricity supply. The main producer of electric power (80 percent) is the Ignalina Nuclear Power Plant. Nevertheless, the co-ordination with the EU of the dates for the closure of its blocks and the prospects in 10-15 years to move over to the domination of thermal energy supply in Lithuania (though I do not consider it rational), lend added importance to the import of gas. Moreover, Lithuania might become a gas transit country, provided the project of the gas main to Poland was implemented on the basis of the agreement between the states.

The capacities of the Lithuanian energy sector enable it to satisfy domestic demand for electric energy, supply it to the Kaliningrad district, Belarus as well as export it to the West. An object of cooperation between countries might be the construction of an electric energy supply bridge from Lithuania to Poland. Regretfully, however, the realization of this project is repeatedly being postponed due to the constantly interrupted dialogue between potential investors.

The energy sector is such an area where it is hardly possible to implement any projects of larger scale without inter-state agreements on the governmental level and the relevant support of the governments involved. This is especially true for countries in the process of transition.

Tourism

During the last decades of the Soviet period, Lithuania used to be a favorite destination for tourism and recreation for the inhabitants of Russia and other Soviet Republics. The towns of Lithuania, as centers of European culture, its seaside resorts (Palanga, Nida, etc.), thousands of lakes abundantly scattered amidst lovely pine woods, comparatively good infrastructure of transport and other services invariably attracted Lithuanian neighbors from the East. This attraction has not died off, as well as the fondness for Lithuanian products, especially food. Nevertheless, there exist some obstacles which could be removed by the following three factors:

- The economic and social growth of Russia with the resultant increase in the purchasing capacity and greater mobility of its citizens;
- The development of the Lithuanian tourism sector and its competitiveness (this is being implemented quite fast);
- The sustained stability in good neighborly relations between the two countries, the increase in the political, cultural and economic cooperation, inter-governmental agreements on rational and favorable visa regimes for the entrance of the citizens of one country into the other (from Russia to Lithuania and vice versa).

Lithuanians, with the exception of a part of the younger generation, speak Russian well, understand the Russian mentality, and are able to find a mutually acceptable way of communication and create an atmosphere of confidence and friendliness. Lithuania has the fewest problems with national minorities of the three Baltic countries.

I regard tourism from Russia as one of the most promising areas of cooperation between Lithuania and Russia. The most urgent problem that needs to be resolved is the simplification of the visa regime by means of a compromise between the commitments to the EU and the interests in developing tourism with Russia and other CIS countries.

Investments

At present the outside investment activity of both countries is still restricted by the lack of investment capital. In the middle of 2000, the share of Russian investors (118 in total) accounted only for 0.5 percent of direct foreign investments in Lithuania. The stated capital of joint ventures with the Russian Federation comprised only 1.4 billion litas, with Russia accounting for only 43.3 million litas or 1.3 percent. Among Lithuanian enterprises which have received the largest Russian investments one should mention the joint stock company “Alytaus pieninė”(“Alytus Dairy”) (3 million USD), the business center “Baltija-Ritm” of the joint stock company “Russian Research and Technologies” (3 million USD), and the joint company “Silmega” (0.3 million USD).

The investments of Lithuanian entities in Russia amount to about 6 million USD. This constitutes almost a third of the total volume of Lithuanian investments abroad. It is possible to predict that the growth in the financial and investment capacity of the Lithuanian business will in future enable us to significantly increase investments abroad. It is believed that Russia will further remain the most important country for Lithuanian investments and capital export.

The increase in mutual investments is one of the most distinctive criteria of the maturity of economic cooperation, which, due to the difficulties in the economic development of the countries in question, is still not able to play a leading role.