RUSSIAN-ROMANIAN RELATIONS
IN THE 21ST CENTURY

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Abstract. The paper focuses on the analysis of the Russian-Romanian bilateral relations at the present stage. It emphasizes the tendency to broaden the economic exchanges and the trade between the two countries after 2000, after the stage of their destroying in the '90s. We analyze the main problems concerning the development of the economic relations, the ways to improve their structure and the forms of economic cooperation. A special emphasis is placed on the modification of Russia’s and Romania’s positions with regard to the activation of the partnership relations, to the attenuation of the „cold” climate in the bilateral relations, to the surpassing of the negative impact of the global crisis.

Keywords: issues in the sphere of cooperation, “historical issues”, mutual distrust, diplomatic dialogue, interests in foreign affairs, economic and political contacts.

The prevailing trend in relations between Russia and Romania at the current stage is a pursuit for promoting economic ties and overcoming the aftermath of a breakdown in cooperation between our countries which took place in the 1990s. Despite a shift in priorities in both countries' foreign policies, the bilateral relations are still an important factor determining the countries' positions regarding international political problems, and an agent of national interests in the process of solving specific issues in the sphere of cooperation.

Romania’s participation in the North Atlantic integration does not imply the abruption of the country’s connections with Russia. In fact, Romania shows even more interest in developing them, which is encouraged by Russia’s strengthened international influence and Russian market’s growing attractiveness in a worsened global economic environment.

In 2003 — the year of the 125th Anniversary of diplomatic relations between Russia and Romania — the two countries signed the Agreement on Friendly Relations and Cooperation, which was the major event that changed the trend in the development of bilateral relations in the very beginning of the 21st century. The

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Agreement made it possible to resume the political and diplomatic dialogue and create conditions conducive to economic and cultural cooperation. The Agreement did not address "historical issues", such as the consequences of the Molotov-Ribbentrop Pact, of Romania’s participation in the World War II in coalition with Nazi Germany, and the issue of the Romanian gold reserves deposited with tsarist Russia. A special commission was formed to solve these issues, which contributed to smoothing over the differences and allowed our relations to get out of a dead-end.

The ties between economic and government structures, regions and businessmen started being established. The Intergovernmental Commission for Economic and R&D Cooperation showed signs of growing activity, focusing on problems of the growth and balanced trade structure, improving the cooperation forms in economic and R&D spheres, as well as in issues of standardization and harmonization of the contractual and legal basis for cooperation.

Following the period after the signing of the Agreement, economic and political contacts became more active. The Presidents of Russia and Romania met in 2008, at the NATO Summit in Bucharest, establishing the basis for contacts at the highest level. The same year, during the visit of the group of deputies of the State Duma of the RF to the Romanian Parliament, it was noticeable that the cooperation between the two countries was actively growing closer.

A significant impetus to the development was given in 2007 by signing the Agreement on Economic Cooperation between the Government of Russia and the Government of Romania at the 10th Meeting of the Intergovernmental Commission.

Recent years have seen a tendency in Romania’s foreign policy to enhance cooperation with Russia, in a difficult economic situation. At the same time Romania actively participates in processes interfering with Russia’s interests in foreign affairs, which cannot facilitate mutual understanding. The major factors of mutual distrust are related to differences in approach to the Moldavian problem (the republic choosing the path of development and settling the conflict in the Dniester region), to Romania’s position in regard to its participation in the creation of the European ABM system with the US ABM system as its core; and to the issue of Romanian gold reserves. As practice shows, the solving of issues related to both the history of our relations and the new geopolitical situation still appears on the agenda. Romania’s relying on its EU membership in its political projects reflects the main trends in its political course. However, searching the way out of the economic crisis is a factor showing a growing influence on the countries’ foreign policy.

Romania’s reorientation towards developing markets is in line with the general tendency, that is, a decrease in the importance of regional concentration of economic activity in the EU and the will of the new EU members to grow less dependent on the stagnating Western European markets. In Romania, special attention is paid to resuming the political dialogue with Russia, which is absolutely essential for the progress. Some steps have been taken to improve Russia’s image in the Romanian society. In particular, Russia’s foreign policy in today’s international context was discussed at the Titulescu European Foundation,
at the conference supported by the Russian Embassy. The creation of the Romanian Cultural Center in Russia is on the agenda designed for the development of bilateral relations.

As long as problems in bilateral relations remain unsolved, the expansion of business contacts and the growing activity of trade partners become the major driving force for developing ties between Romania and Russia. As the Romanian President T. Băsescu remarked at an annual meeting of Romanian diplomats, “Economic relations with Russia, despite various developments, are strengthening and sooner or later will also bring about political results.”

The years 2010-2011 saw bustling activities of economic structures and business partners, which allowed the 10th Meeting of the Intergovernmental Commission for Economic and R&D Cooperation to take place in October 2011. The practice of contacts and negotiations at the level of major companies, banks and commercial structures was continued. In October 2010, A. Miller, head of Gazprom, visited Bucharest. Issues of cooperation in the gas and oil sectors were negotiated. Problems of cooperation in the field of hydro technical and hydroelectric construction were on the agenda of negotiations held in Bucharest by the delegation of Russian firms specializing in this field.

Delegations from two international banks working in Russia (the International Investment Bank and the International Bank for Economic Cooperation) visited Romania, which had a positive influence on cooperation between the two countries in the financial and banking sphere.

Trade and industrial structures were very active in regard to developing connections. The constituent act of the Business Council for Economic Cooperation between the CCI of the RF and the Bucharest CCI, bringing together representatives of major Romanian and Russian companies, was signed at the end of 2010 during the visit of representatives of the Bucharest CCI to Moscow.

Romania strengthened its presence in the Russian market by establishing its trade representative office in Moscow in 2010. In October 2011, the representative office was opened by the CCI of the Prahova County. The Russian-Romanian Chamber of Commerce and Industry registered in Bucharest has launched a wide range of activities. Together with the Romanian Institute of National Economy, it developed the Strategy for developing exports and economic cooperation between Romania and Russia for the period 2009-2015, with the aim to include it into the National Export Strategy. The Strategy implies that the eastern direction will play a greater role in the process of expanding foreign economic relations. The change in the principle determining the development of relations between market agents aims to increase the mutual interest for business contacts. Investors are offered an opportunity to select businesses in the countries, which promote expanding contacts.

The Open Investment Fund and the Investment Bank (with participation of the International Investment Bank, the International Bank for Economic Cooperation, and the Romanian Ministry of Finance as a stockholder) are established in Romania to support Russian investors. According to Romanian analysts, the promising spheres for Russian investors include power production,
hydraulic construction, tourism, airport, road and bridge construction. Developing ties between the two countries’ regions provide considerable resources that are still waiting to be used.

In 2010 and 2011, due to expanding contacts between Romanian and Russian economic organizations and businesses, the pre-crisis initiatives aimed at solving the problems regarding the volume and structure of mutual deliveries continued. Due to the fact that in 2011 the contracts on supplying natural gas to Romania expired, special attention had to be paid to developing relations in the gas sphere. The issue of Romania’s participation in the Russian South Stream project was also on the agenda.

Active interrelation at the current stage formed the basis for an increase in the bilateral trade turnover, which was in line with the general processes of Russia’s expanding its trade with the CEEC in the situation when their economies recovered.

Table 1: Russian-Romanian Trade Turnover (in rubles)

<table>
<thead>
<tr>
<th>Year</th>
<th>Trade turnover</th>
<th>Export, the RF</th>
<th>Import, the RF</th>
<th>Trade balance, the RF</th>
<th>Dynamics year on year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>5183.8</td>
<td>4165.3</td>
<td>1018.5</td>
<td>+3146.8</td>
<td>129.7</td>
</tr>
<tr>
<td>2009</td>
<td>2459.3</td>
<td>1558.8</td>
<td>876.5</td>
<td>+682.3</td>
<td>37.4</td>
</tr>
<tr>
<td>2010</td>
<td>3370.4</td>
<td>2024.9</td>
<td>1345.5</td>
<td>+679.4</td>
<td>129.9</td>
</tr>
<tr>
<td>2011</td>
<td>3554.7</td>
<td>1827.6</td>
<td>1727.1</td>
<td>+105.5</td>
<td>90.3</td>
</tr>
</tbody>
</table>


In 2011 the mutual trade turnover grew by 5.5%, which includes an increase in Romania’s export to Russia by 28.4%.

Russia’s position in the Romanian market improved. In 2010, Russia rated 12th in the Romanian export and 6th in the Romanian import (compared to 15th and 11th, accordingly, in the pre-crisis year 2008). Romania improved its position in the Russian market by increasing its share in the Russian import from 0.38% (in 2008) to 0.59% in 2010, having thus reached an average level of CEEC’s presence in the Russian market.

Winning new positions in the Russian market fostered progress in solving the problem of imbalance in the Russian-Romanian trade structure. The tendency remained to improve the index of coverage of the Romanian import by export in the trade with Russia. While in 2008 it was 24.5%, in the period of crisis it amounted to 56.2% due to a reduction in import. In 2011, the ratio of the Romanian export to import from Russia reached 66.4%. The major factor that contributed
to this improvement was the growth of the Romanian export, which was significantly higher than an increase in deliveries from Russia.

Reaching a new level of investment and financial interaction, outlined in the proceedings of the recent meeting of the Intergovernmental Commission, and development of partnership forms and institutions for cooperation can create favorable conditions for optimizing the structure of the trade between the two countries.

Russian deliveries of raw materials and fuel remain the basis of the commodity exchanges between Russia and Romania. In 2011, they accounted for more than 40% of the trade turnover between these countries, and for more than 80% of Russia’s deliveries to Romania. There’s a tendency towards reduction in the share of export of Russian energy resources, which as recently as in 2008 accounted for 69.5% of the trade turnover. The shift in the structure of the trade turnover in 2010 was due to the high dynamics of the Romanian export, with machines, equipment and vehicles forming the predominant group in it. The share of Romanian deliveries of machines and equipment in the Russian-Romanian trade turnover was 26.9% in 2011 (13.2% in 2008).

The role of Russian export of machines and equipment in the mutual trade is negligible. As far as Romania is concerned, deliveries of engineering products to Russia are not a decisive factor for the development of the country’s export as well. The RF accounts for 4.3% in the Romanian export of machines and vehicles.

Electric machines, telephones, light vehicles, ships, cooperated deliveries for Logan cars find their consumers in Russia.

The prospects of the Russian market for Romania are estimated by the parties depending on opportunities for promoting deliveries of equipment for power production and construction, as well as cooperation in the sphere of aircraft production. But the widest opportunities for the Romanian export lies in the industries traditional for the bilateral relations – first of all, furniture production and agriculture.

Russian deliveries to Romania have been so far dominated by fuel and energy products. In 2011, Russia exported to Romania 1.15 m tons of oil and 1.16 bn cubic meters of gas. Russia’s presence in the Romanian market plays an important role in maintaining of the country’s fuel and energy balance. Russia accounted for almost 60% of oil consumed in Romania. It is the only supplier of gas to Romania (18% of gas consumed in this country was imported from Russia).

For a long time Romania distanced itself from Russia in its approach to the formation of the energy market in Europe, being committed to pan-European energy projects, which was an obstacle to developing the bilateral cooperation between Russia and Romania in this sphere. 2009 saw the first sign of active cooperation in the sphere of gas supplies during the visit of the Romanian Minister of Economy to Moscow. The dialogue on Romania’s participation in the development of the Russian gas transmission system, first of all the South Stream project, as well as on deliveries of Russian natural gas to Romania, continued in 2010-2011. It was also necessary to settle the matters related to bilateral ties in the energy industry, since the 1996 Agreement on increasing the capacity of the gas line and gas supplies to Romania expired.
So far the question about transit capacities of Romania remains open, but during the visit of the head of Gazprom, the Memorandum of intent was signed with the Romanian company Transgaz on feasibility evaluation for the passing of the gas pipeline through Romania and drafting the corresponding intergovernmental agreement. Other issues of cooperation in the electric power production, oil and oil-processing industries were also discussed.

The negotiations changed the situation for developing interrelations in the gas industry, having created conditions for increasing supplies and motivating the parties to expand cooperation. Regarding gas supplies to Romania, the parties consider it a prospective area of cooperation to create the infrastructure for storing, processing and distribution of the product. The indispensable precondition for settling this problem, along with many other problems, is renegotiating the 1996 Agreement on gas import, as well as solving the issues of Romania’s participation in the South Stream project and construction of ten gas storages in Romania. These matters were the focus of discussion at the meeting of the Intergovernmental Commission in October 2011. The meeting of A. Miller, head of Gazprom, with the Romanian Minister of Economy became a turning point in developing the projects on gas supplies, construction of gas storages and Romania’s participation in the South Stream. The change in the concept of delivering gas to Romania brought about the change in the approach to settling the problems. The new agreement on gas delivering acknowledges Romania’s right to re-export Russian gas without permission from Gazprom. By 2020 Russia is supposed to increase gas supplies to Romania up to 10 bn cu m. At the same time, Gazprom agreed with Romgaz to build ten gas storages (up to 5-6 bn cu m) in Romania.

New conditions allow Romania to expand its participation in establishing the all-European gas system by playing a more active role in the process of joining the gas systems of neighboring countries with interconnectors. Such a joint is already functioning at the border with Hungary (Arad-Szeged), and similar projects are being implemented in cooperation with Bulgaria (Giurgiu-Ruse), Serbia and Moldova (Iași-Ungheni).

An important result of contacts between Russia and Romania is the possibility to organize direct contract connections when delivering natural gas and investing into construction of thermal electric power plants and subsurface reservoirs, which allows for diminishing the role intermediary agents play in the process. Romanian businesses are especially interested in it.

The issue of direct connections is also important for Russian importers, who buy Romanian products under intermediaries’ brands at much higher prices. The tendency to improve trade conditions through direct links and mutual participation in developing businesses is supported by the business community.

As far as the energy sector is concerned, relations are never limited by the delivery of energy carriers. The issue of Russia’s participation in construction in the energy sector is still on the agenda. During the visit of the Romanian Minister of Economy to Moscow in 2009 there was a discussion on Russia’s participation in the development of the Romanian energy sector, including modernization of
electric power stations employing Russian technologies. An offer was made to jointly construct an electric power station using natural gas as fuel. Agreements with Gazprom reached by the end of 2011 create an opportunity for the implementation of these plans.

Major firms are main investors into the Romanian economy. Direct inputs account for only a part of investment flow. Branches of Russian companies, as well as firms controlled by them, in Holland, Germany and Switzerland became an important channel for investment. Direct contacts create opportunities for more effective relations. As it was noted at the meeting of the Intergovernmental Commission, the volume of accumulated Russian investments in Romania reached $2 bn, which is $500 m more than in the middle of 2010.

Russian banks’ pursuit to enter the CEEC influenced Russian-Romanian relations as well. In 2011, Sberbank of Russia declared its intention to acquire assets of Volksbank International – East European subdivision of Volksbank, Austria, uniting ten branches. Volksbank – Romania is the largest among this group, and acquiring its assets would call for the concentration of all transactions from the EU in this subdivision. At the moment, Sberbank is skeptical about acquiring assets of the Romanian branch due to lack of liquidity in the Romanian market and underdeveloped financial system. Neither is the National Bank of Romania enthusiastic about Russian bank’s entering the Romanian market because of the strained relations between the two countries at the state level.

The attitude of business representatives is different; they tend to neglect political barriers when selling assets. The issue of acquiring the assets of Volksbank – Romania is suspended for the time being.

Renaissance Capital, one of Russia’s largest private investment banks, was more successful in entering the Romanian market. In consortium with Romanian investment financial institutions, it was given the right to take part in selling the assets of Petrom.

The insurance company Rosgosstrakh is now taking active steps to enter the Romanian market.

Russian financial structures’ entering Romania is a sign of the inevitable expansion of economic interrelations, despite all political and geopolitical controversies.

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