# A Survey of Progress and Pitfalls with the Eurasian Economic Union

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# A Survey of Progress and Pitfalls with the Eurasian Economic Union

By
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**IATRC Annual Meeting**

**Scottsdale, AZ**

December 11-13, 2016

College of Agriculture, Food and Natural Resources

Food and Agricultural Policy Research Institute
FAPRI

# Agenda

- Sources used
- Chronology of the EAEU
- How it is evolving
- Progress and pitfalls
- http://www.eurasiancommission.org/en/Pages/default.aspx
- http://www.eaeunion.org/?lang=en

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# The Eurasia Economic Union among Russia, Belarus, Armenia and the Kyrgyz Republic: Can it succeed where its predecessor failed?

David G. Tarr

Eastern European Economics Vol. 54 , Iss. 1,2016

# The Single Market in the Eurasian Economic Union and Barriers to Trade

IAAE Inter-Conference Symposium Agricultural Transitions along the Silk Road: Restructuring, Resources and Trade in the Central Asia Region 4 - 6 April 2016 |
Almaty, Kazakhstan

David Sedik and Iryna Kobuta

Food and Agriculture Organization of the UN

Food and Agricultural Policy Research Institute FAPRI

# Landlocked or Land-Linked? Will new regional infrastructure resurrect international trade routs for agricultural goods?

IAAE Inter-Conference Symposium Agricultural Transitions along the Silk Road: Restructuring, Resources and Trade in the Central Asia Region 4 - 6 April 2016 | Almaty, Kazakhstan

Richard Pomfret

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THE RUSSIAN FEDERATION
THE REPUBLIC OF BRLARUS
THE REPUBLIC OF KAZAKHSTAN
THE REPUBLIC OF ARMENIA
THE KYRGYZ REPUBLIC


The Eurasian Economic Union
the Republic Armenia, the Republic of Belarus, the Republic of Kazakhstan,
the Kyrgyz Republic and the Russian Federation
182,7 million people
over 20 million sq. km.
14% of the world's firm land

# Central Asia punished by landlockedness or blessed by a dynamic neighborhood? - Pomfret


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# The timeline for EAEU

- Sept 1993 - CIS established = FSU minus Lit, Lat, Est (free trade internally but not a common external tariff)
- 1 Jan 2010 – Russia, Belarus and Kazakhstan formed Eurasian Economic Community (EurAsEC) , including common external tariff (customs union with mainly Russian tariff schedule)
- January 2012 they agreed to form a “common economic space”
- February 2012 formed the Eurasian Economic Commission as a regulatory body like the EC
- January 2015 the EAEU was launched and Armenia became fourth member and the goal is a single market and free movement of goods, services, capital, and labor
- May 2015 Kyrgyz Republic joined as 5th member
- Next is Tajikistan?

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# Roots of Tariff Disharmony

- Disharmony attributable to different country interests:
  - Russian and Belarusian food processors seek protected market
  - Armenia and Kyrgyzstan as food importers chose to keep external tariffs low to protect consumers.
  - Kazakhstan just joined WTO and set rather low bound tariffs

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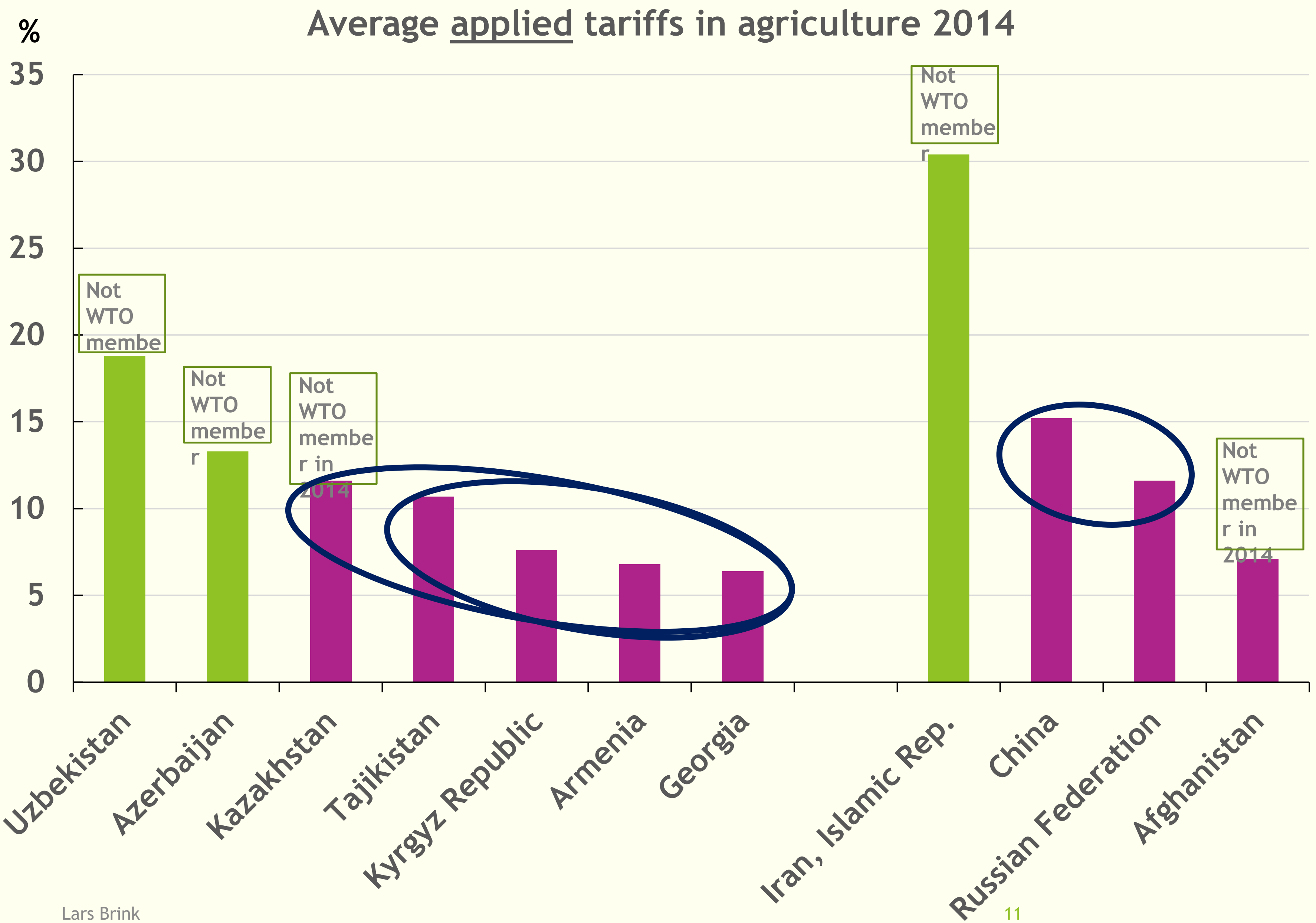




Source: WTO, ITC and UNCTAD (2016). No data for Turkmenistan.

# Key Building Blocks for a Single Market

**In the Treaty on Eurasian Economic Union (2014)**

- *1. No tariff barriers* in internal trade (art. 28), harmonized custom rules (art.32); harmonized external tariff (art. 42)
- *2. No non-tariff barriers* in internal trade, free movement of goods internally (art. 28)

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# Immediate effects of joining common external tariff (CET)

- Doubled import tariffs of Kazakhstan, Armenia and Kyrgyz Republic from about 3-5% to about 11%
- Costly trade diversion effects, since Russia was more highly protected than these three
- The actual or potential loses (transfers to Russia) led these 3 to apply CCT only to low tariff items – "a la carte customs union"
- These countries did not see offsetting gains to compensate for these loses
- So EurAsEC failed
- But EAEU also uses primarily Russian tariffs

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# Along comes WTO commitments

- Russian (unweighted average) tariffs to be reduced from 11.5% to 7.9% by 2020
- Reduces trade diversion losses of K, K and A but could add costs to Belarus that is not a WTO member and has tariffs closer to Russian pre-WTO ones
- But Kyrgyz Republic and Kazakhstan (joined Nov 2015) have bound rates of 7.5 and 6.1, respectively, so the EAEU would have to compensate WTO members if they object
- But about 1500 lines of Russian applied tariffs are below bound tariffs, so not a big problem
- Lower loses for K, K and A but still lose from EAEU
- So what is the compensating benefit?

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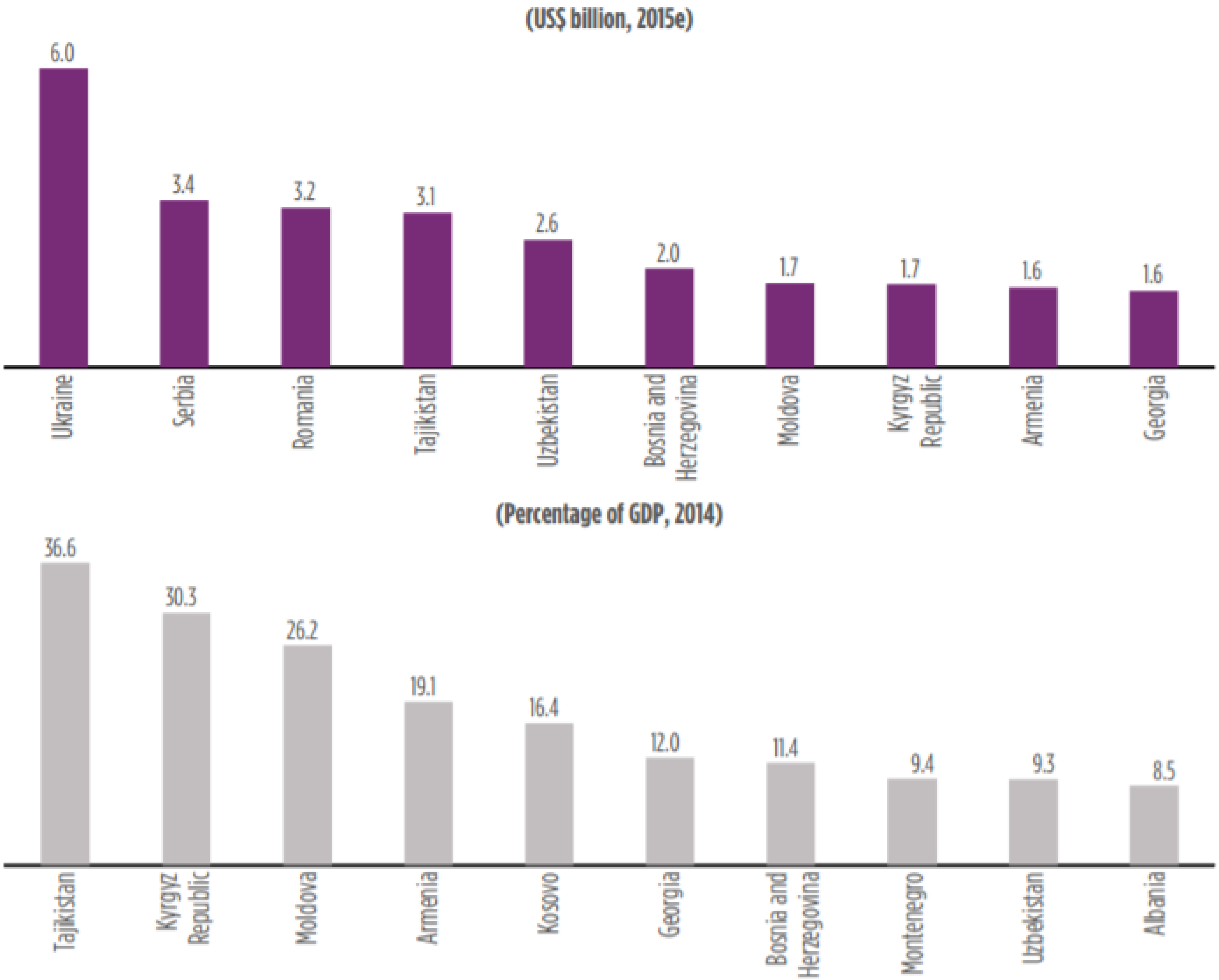
FIGURE A3 ■ **Several ECA Countries Depend Strongly on Remittances**




*Sources*: IMF, World Bank World Development Indicators, and staff estimates.


Russian bear
Personal remittances from Russia*
Q1 2012=100
180
160
140
120
100
80
60
Kyrgyzstan
Uzbekistan
Armenia
Tajikistan
Moldova
2012
13
14
15
Source: Central Bank of Russia
*12-month moving average

# Non-tariff barriers and trade facilitation

- A way to gain benefits for the Non-Russian partners
- SPS measures and TBTs are the main non-tariff barriers
- Can EAEU deal effectively with these?
- Estimates are that NTBs remain rather high in the EAEU
- Russian import ban was unilateral, caused friction with Belarus especially and was not a jointly decided measure.
- Kazakhstan banned meat products from Russia in 2015 and also suspended fuel and gas imports
- So there are clearly growing pains
- World Bank Doing Business survey shows some progress in trade facilitation

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# Trade Costs in Central Asia: World Bank *Doing Business* Indicators

| | Overall Ranking | | Trading Across Borders | |
|---|---|---|---|---|
| | June 2014 | June 2015 | June 2014 | June 2015 |
| Kazakhstan | 77 | 41 | 185 | 122 |
| Kyrgyz Republic | 102 | 67 | 183 | 83 |
| Tajikistan | 166 | 132 | 188 | 132 |
| Turkmenistan | n.r. | n.r. | n.r. | n.r. |
| Uzbekistan | 141 | 87 | 189 | 159 |

*Source*: *Doing Business* at http://www.doingbusiness.org/rankings.
*Notes*: rankings based on 189 countries;, n.r. = not reported

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# CAREC *Corridor Performance Measurement and Monitoring* (CPMM)

provides a detailed picture of the difficulties of conducting overland trade in Central Asia

(CPMM) methodology based on the time-cost-distance method developed by UN-ESCAP.

- in contrast to earlier studies of *ad hoc* trips, CAREC's measurement consists of regular monitoring in conjunction with the freight forwarder associations.
- 2012 sample = 3,194 trips, along the six corridors monitored by CAREC, of which 80% were by road 17% by rail and 3% inter-modal,

CAREC (2012): *Corridor Performance Measurement and Monitoring Annual Report 2012* – available at http://www.carecprogram.org/uploads/docs/CAREC-CPMM-Reports/1-CAREC-CPMM-Annual-Report-2012.pdf

# Single agricultural health and food safety space

- "Free movement…without state control" (art. 28) implies creation of a single animal, plant health and food safety space.
- How is this done?
  - Mutual recognition (of vet and phytosanitary certificates)
  - Harmonization of animal, plant health and food safety regulations

# Harmonization
# (for single food safety, agr health space)

1. Vertical harmonization
   – EAEU standards based on international standards from the 3 standard setting agencies (Codex, OIE, IPPC)
   – Two aspects to international standards:
     • Normative threshold levels (chemical residues, microbiological count, additives, etc.)
     • Principles
2. Horizontal harmonization
   – Regulatory organ of the EAEU issues standardized regulations for entire EAEU space
   – Enforcement entirely at country level

# Horizontal Harmonization

- No single food safety and agricultural health space--5 food safety systems with agreed rules
- SPS measures (in response to fs threats)
  - Countries introduce at their own discretion
  - Political disagreements can lead to abuse of SPS measures ("trade wars")
  - Undermines trust in single market
- Possible solution: entrust risk management and risk assessment to objective, science-based supranational authority

# Vertical harmonization

- Compliance with international standards
  - Normative food safety parameter levels
    - 40% compliance (2013 assessment by Chief Sanitary Officer of RF)*
    - Passive approach to adoption of int'l standards (compliance assumed, unless 3rd country complains)**
  - Principles
    - *Inadequate elaboration for implementation of principles*--animal identification, HACCP, traceability, "farm to fork" food safety risk analysis, regionalization, plant quarantine
    - Adoption of SPS measures as technical regulations--not appropriate for food products, remnant of GOST

- Lack of credible mechanism to ensure enforcement throughout EAEU
- Solution: Empower supranational authority to assess and manage risks, including evaluating country control systems

Sources: *Voprosy pitaniia, 2013, no. 2;

**CUC Decision nos. 625 and 801, 7 Apr. 2011 and 23 Sep. 2011

# Conclusions

- Slow progress toward single market in the EAEU, and maybe not possible under current legislation/institutions
  - *Tariff disharmony*
    Unclear how divergent interests will be resolved
  - *No single fs and agri-health space*
    No robust institution to achieve consensus on risk analysis in the EAEU
- Lack of a single market implies that EAEU will remain a largely protectionist CU with limited consumer benefits
- EAEU gains vary much by country, fuel subsidies, remittances, military, political

Thank you!
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