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Transition in Agricultural Trade: East, West, Home is Best?

Ekaterina Krivonos

Selected Paper prepared for presentation at the International Agricultural Trade Research Consortium's (IATRC's) 2017 Annual Meeting: Globalization Adrift, December 3-5, 2017, Washington, DC.

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Food and Agriculture
Organization of the
United Nations

25 Years of Transition in Europe and Central Asia: A Diversity of Experience and Prospects
Transition in Agricultural Trade: East, West, home is best?

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IATRC Annual Meeting
Washington, DC
3-5 December

Introduction

Disruption of agricultural output in former Soviet Union countries immediately following independence, with overall economic downturn and shrinking output



Agricultural production continued to decline for almost a decade



Fundamental macroeconomic reforms and privatization, leading to a economic growth and trade expansion

After 2000, these processes were accompanied by gradual formation of different trade and integration blocs:

- Estonia, Latvia and Lithuania are EU members since 2004
- Georgia, Moldova and Ukraine negotiated DCFTAs with the EU
- CIS -> Customs Union -> Eurasian Economic Union (Russia, Belarus, Kazakhstan, Kyrgyzstan and Armenia)

Regional integration

2010: The **Eurasian Customs Union** (ECU) between Belarus, Kazakhstan and Russia



1991: **Commonwealth of Independent States** is created

- Georgia withdraws in 2008
- Ukraine an "associate" state but with no de facto participation

- 2012: ECU becomes a Single Economic Space
- May 2014: formation of the **Eurasian Economic Union** (EAEU)
- January 2015: Armenia and the Kyrgyz Republic join the EAEU

Integration with the EU

Georgia, Moldova and Ukraine formed DCFTAs with the EU

A preferential free trade area seeking the progressive removal of customs tariffs and quotas, as well as an extensive harmonization of laws, norms and regulations in various trade-related sectors

- The DCFTA agreements with Moldova and Georgia have been ratified and officially entered into force in July 2016. The agreement with Ukraine was adopted by the EU Council in July 2017, with full implementation as of 1 September 2017.
 - Armenia was scheduled to sign a DCFTA agreement with the EU in November 2013, after years of negotiations, but instead in September 2013 announced it would sign a free trade agreement with Russia's Eurasian Economic Union
- Some countries in the region benefit from the EU Generalised System of Preferences (GSP+), a preferential tariff system that provides for a formal system of exemption from the more general rules of the WTO

Relations with China

Despite not having an FTA with any of the countries in the Eurasian region, China is an important actor in the region

The Shanghai Cooperation Organization (SCO) fosters co-operation in terms of politics, economics, and security across the Eurasian region



The SCO started in 1996 as a multilateral co-operative agreement between China, Kazakhstan, Kyrgyzstan, Russia and Tajikistan, but has since then grown to incorporate Uzbekistan, India and Pakistan

China's Silk Road Economic Belt (SREB), launched in 2013, an ambitious program to invest transport and trade infrastructure between China and Eurasia



Efforts to improve transport and energy infrastructure:

- New Eurasia Land Bridge Economic Corridor (Rail/road) through Russia
- Central Asia-West Asia Economic Corridor that bypasses Russia.

WTO accession

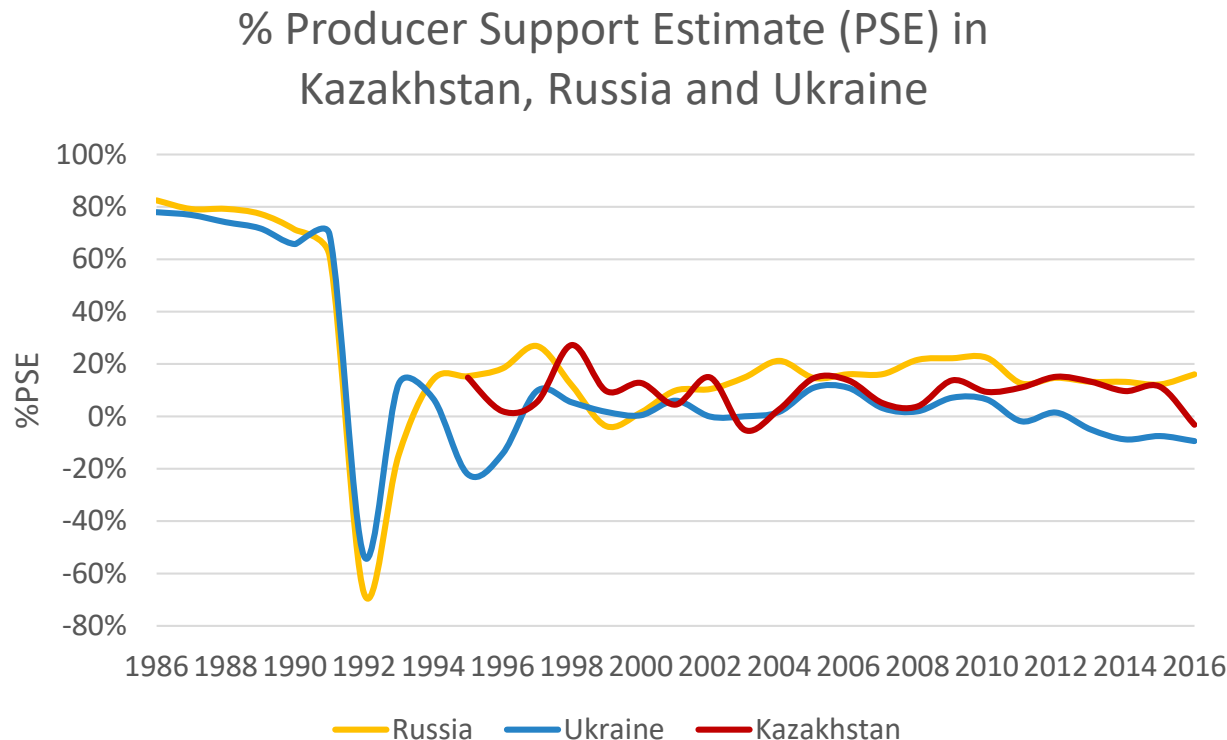
Members

Country	WTO status
Kyrgyz Republic	Member since December 1998
Georgia	Member since June 2000
Moldova	Member since July 2001
Armenia	Member since February 2003
Ukraine	Member since May 2008
Russian Federation	Member since August 2012
Tajikistan	Member since March 2013
Kazakhstan	Member since November 2015

Non-members

Country	WTO status
Belarus	Applicant since 1993
Uzbekistan	Applicant since 1994
Azerbaijan	Applicant since 1997
Turkmenistan	Not an applicant

Variation in support to agricultural producers



Source: OECD PSE database

A deep cut in agricultural support in early 1990's (with implicit taxation of agriculture) with subsequent stabilization, with negative support in Ukraine since 2013

Self-sufficiency targets

In some countries agricultural programmes include self-sufficiency targets.

For the example:

- The State Programme for Agriculture in Russia includes targets by 2020 for meat (91.5% and dairy 90.2%)
- Kazakhstan specifies volumes for each category of products that need to be produced each year (2017-2021)
- Armenia sets both volume and self-sufficiency ratio targets by 2020 (e.g. 100% for sheep meat, 80% for beef and pork)

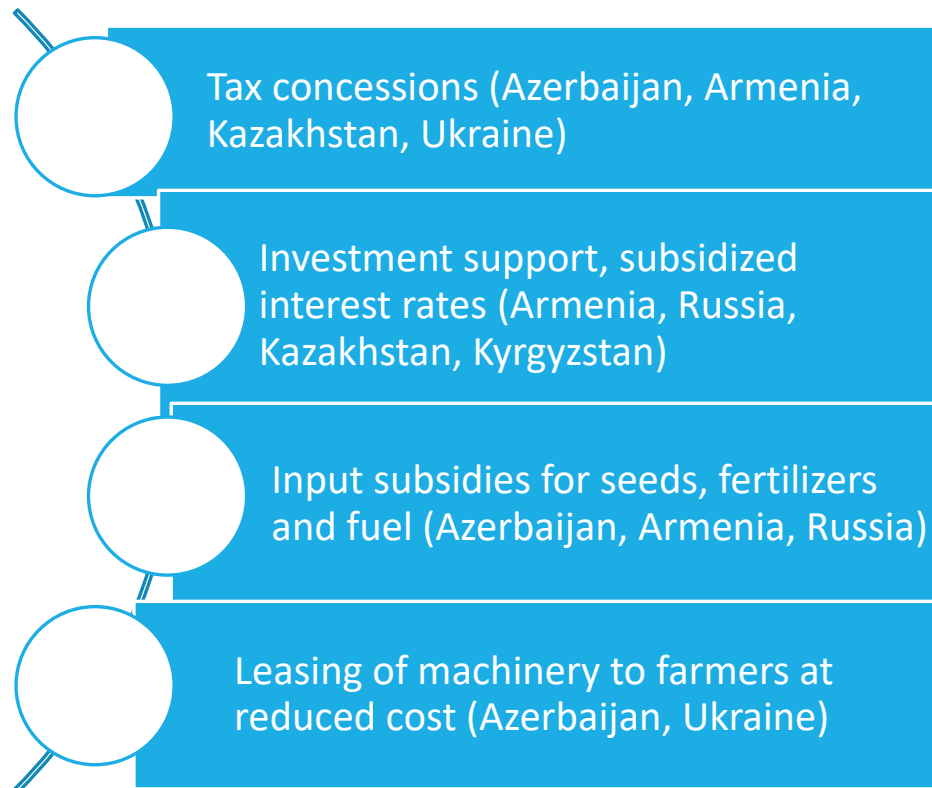
While these targets by themselves do not induce production, they set the course towards protection of domestic producers, which includes subsidies and ad-hoc trade barriers.

Support to agriculture

Following the initial withdrawal of the state from agriculture, agricultural support programs emerged as economies recovered

The level and distribution of producer support depends on the **general course of economic policy, priorities for the agricultural sector and the state budget.**

Typical support measures today:



Factors affecting agri-food trade

Marco-economic shocks 2014-16:

- Lower oil prices: Lower government budgets and focus on diversifying productive activities
- Sharp devaluation of the Russian and Ukrainian currencies (others too, but less)
- Financial sanctions imposed on Russia

Parallel trade processes:

- WTO accession
- Expansion of the Eurasian Union
- DCFTAs with the EU (Georgia, Moldova and Ukraine)
- Russian food import ban

Recent trade restrictions

- Russian ban on food imports from the EU, the US and some other countries in August 2014 (the "counter-sanctions"), extended several times.
- Russian ban on food imports from Ukraine (as well as cancellation of preferential trade regime). A reciprocal ban from Ukraine.

Other market access issues:

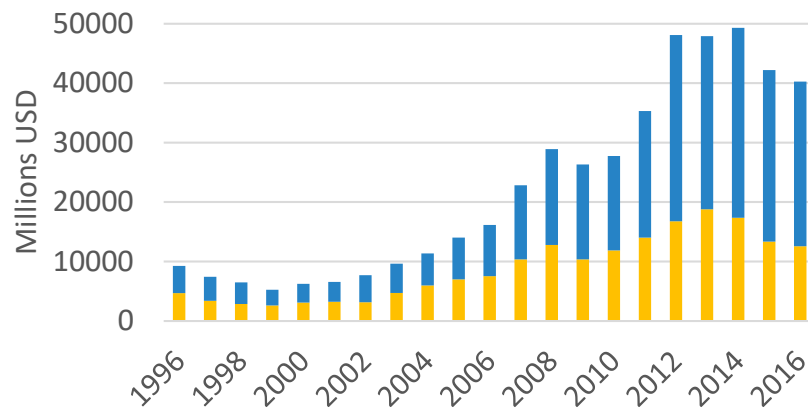
- Ad hoc tariffs / TRQs, for example:
 - In May 2016, Moldova introduced tariff quotas for agrifood imports from Ukraine as a response to considerable increase in import values.
 - In September 2016, high specific tariffs on some fruits and vegetables as well as eggs were introduced by Azerbaijan to protect domestic producers
- But major trade policy reforms in Uzbekistan with reduced or removed tariffs on many agri-food products
- Restrictions based on the **SPS measures**, especially for animal products
 - E.g. multiple Russian restrictions on imports of meat and dairy products from Belarus on food safety and veterinary grounds).

Divergent tariff rates within EAEU

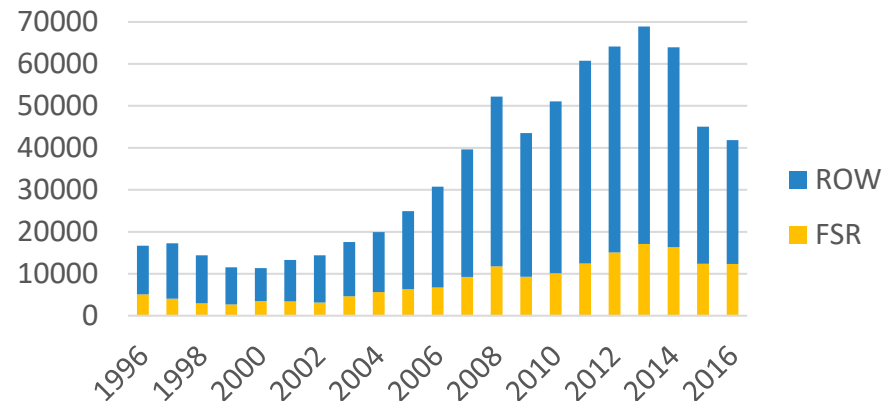
- Kyrgyzstan joined the EAEU in 2015 and has raised its tariffs to the CET level – It has to follow procedures in the WTO to revise its MFN commitments.
- Kazakhstan joined the WTO in 2015. For 3,081 tariff positions Kazakhstan's MFN tariffs are below the EAEU CCT (27% of all tariff lines in the EAEU CCT).
 - This includes 826 product lines for food and agricultural goods (about 31%)
- This introduces a substantial discrepancy (effectively, CET is not enforced)
- EAEU Member States agreed on a protocol under which re-exports from Kazakhstan of these products into EAEU would be charged a tariff

Evolution of intra-regional trade

FSR - Export of WTO ag-food commodities
by destinations



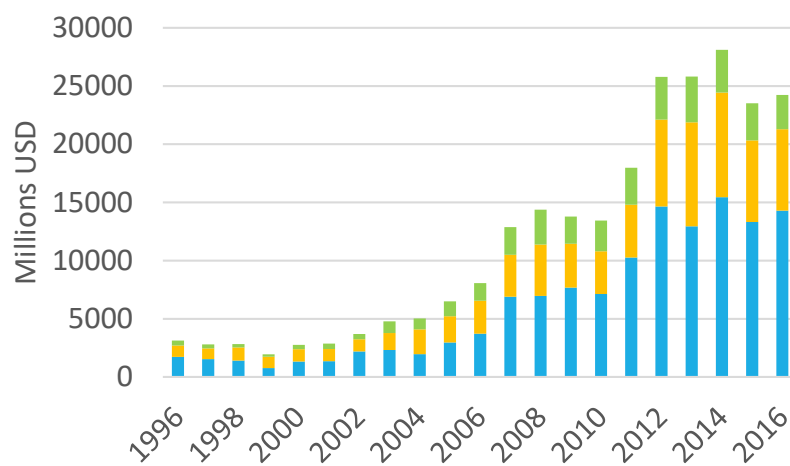
FSR - Import of WTO ag-food commodities by
sources



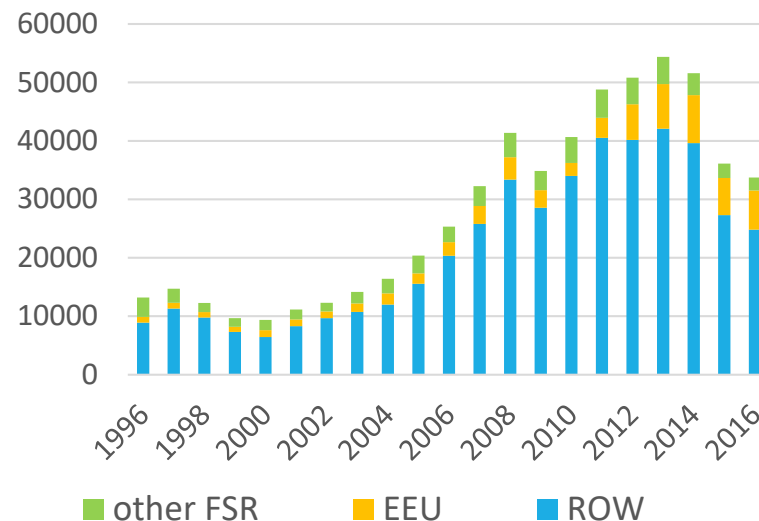
A decline in the share of exports to the region, while the share of regional suppliers in total imports is relatively stable

Eurasian integration within the EAEU

EEU - Export of WTO ag-food commodities
by destinations



EEU - Import of WTO ag-food commodities
by sources



The share of Eurasian Economic Union in total exports of the member countries has fluctuated around one third. The share in imports has increased from about 10% in 2004-06 to 18% in 2014-16. Overall EAEU is net importer of food.

The Russian import ban since 2014

- The import ban was announced by the Russian Government on 7 August 2014, initially for 1 year
- Covers imports of beef, pork, poultry, processed meats, fish and other seafood, milk and milk products, vegetables, fruits and nuts from European Union, United States, Canada, Australia and Norway.
- Came after a series of other (mainly SPS-related) constraints
- Extended several times

Compounded by numerous developments:

1. Sanctions and “anti-sanctions”
2. Low oil prices
3. Strong depreciation in regional currencies in 2014-2015

The observed changes in trade: A strong decline in Russia's imports

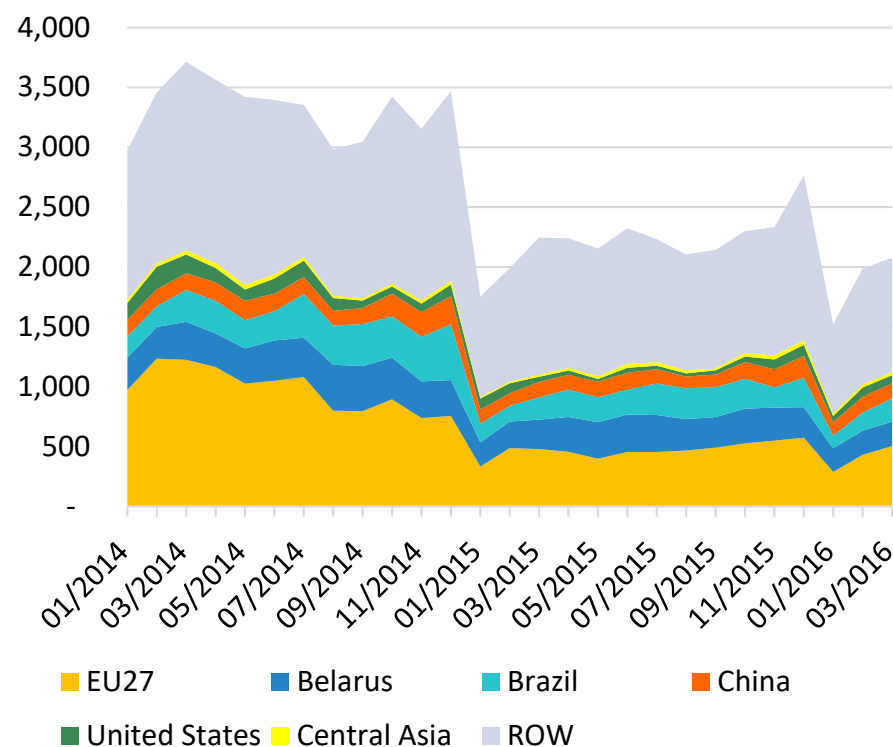
Consequences:

- Decline in aggregate agricultural imports (33 percent from 2014 to 2015)
- A shift in the import sources: From 2014 to 2015 total agri-food imports from the EU (the largest exporter of food to Russia) declined by 52%; imports from Brazil increased by 29%.
- Some benefits to producers in Russia, limited to partners in the Customs Union - no real expansion in exports due to weak ruble and falling demand in Russia. **The share of Central Asia in Russia's agricultural imports remains at around 1%!**

Moreover:

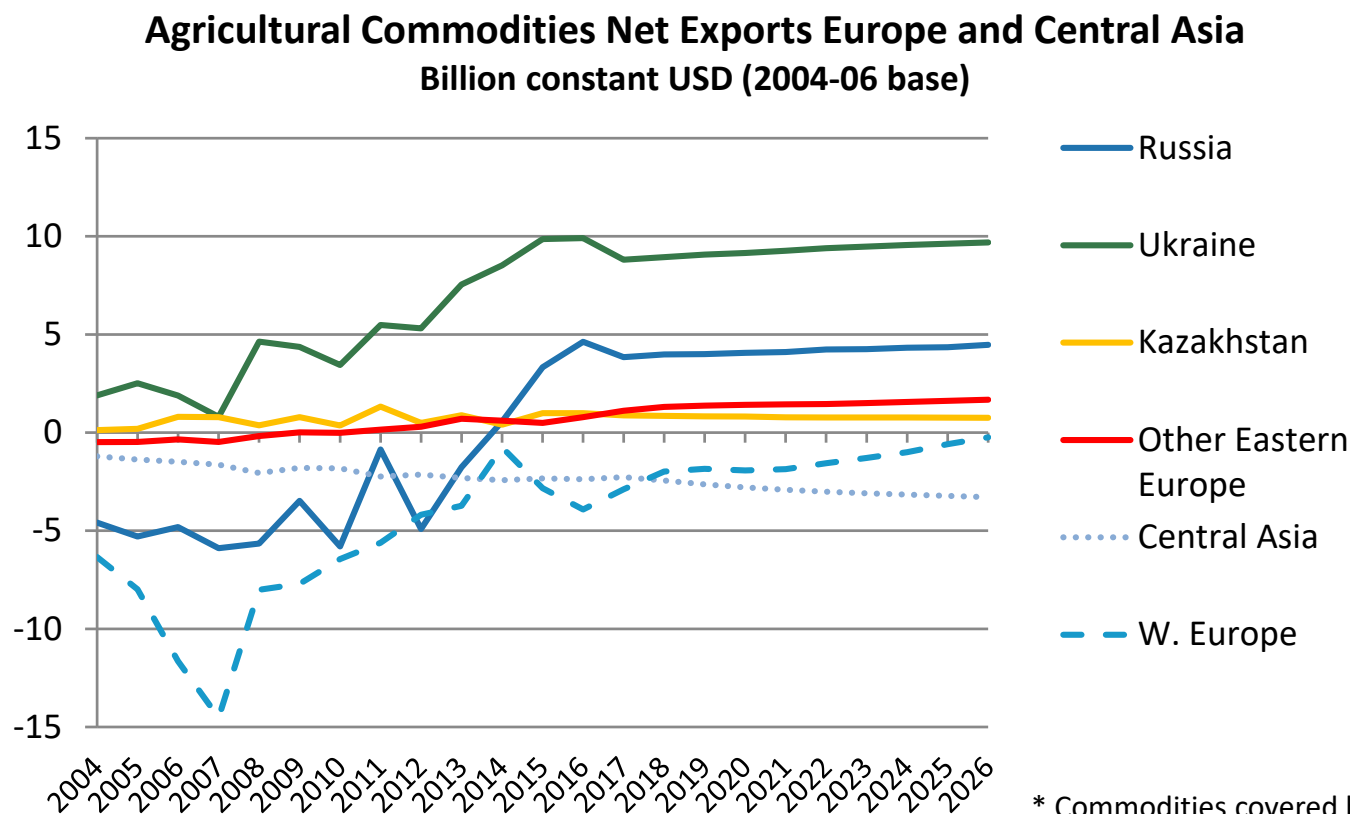
- Domestic production of pork and poultry production is increasing consistent with long-term trend, reducing import dependency.

Monthly value of Russia's agricultural and food imports by source, US\$ mn



Source: Global Trade Atlas

Russia is set to become a net exporter of agricultural commodities*



Source: OECD-FAO Agricultural Food Outlook data

* Commodities covered by Agricultural Food Outlook (these do not include fruits and vegetables or processed food)



Concluding remarks

- Divergent trends in trade integration: Some lean towards EU, others towards Russia/EAEU. Increasing influence of China in Central Asia.
- Trade policy is linked to geopolitical issues and conflicts. This drives the process of regional integration and relations with the EU as well as introduction of trade barriers.
- Conflicting commitments of countries between WTO and the EAEU have greatly complicated the administrations of tariff in Central Asia.
- Many countries prioritize self-sufficiency in agriculture, which determines support to agriculture (although reduced availability of public budgets is a constraining factor)
- Unpredictable trade policy environment with additional barriers in recent years, particularly the Russian ban and SPS measures
- The realignment in trade directions due to trade barriers and macro-economic effects, in particular in Russia and Ukraine, may have longer-term implications for global markets.
- **The potential to substantially increase production and exports is undermined by ad-hoc agricultural and trade policy measures**



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First meeting of the CIS Agricultural and Trade Policy Expert Network

FAO, Rome, 15-16 December 2014



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Thank you!
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Resolving Agricultural Trade Issues through International and Regional Trade-related Agreements in the CIS Region

1 - 26 June 2015

Registration is closed

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COURSE BACKGROUND

LEARNING OBJECTIVES

Resolving Agricultural Trade Issues through International and Regional
Trade-related Agreements in the CIS Region, 1 – 26 June 2015

Course objectives